

Agribusiness Development in Sub-Saharan Africa

Concept Paper

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INTRODUCTION AND PURPOSE

Recognizing the significant role of agriculture in Africa and considering the foundation established in "A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa," this concept paper presents a background of donor experience in agribusiness development, suggests some clarifications and definitions of related concepts, and recommends that certain program activities be pursued so that Africa/ Technical Resources (TR) can

- Strengthen its abilities to provide more effective, practical strategic support to Missions developing agribusiness objectives;
- Provide specific bureau leadership and direction for agribusiness strategies, instruments, programs, and so forth; and
- Quickly respond to specific Mission requests for information, consultation, guidance, or other support.

RATIONALE

Agribusiness Development and Economic Growth

... to focus on agribusiness development as a legitimate and tenable gateway to short-, near-, and long-term economic growth.

Most sub-Saharan countries look to their agricultural sectors to sustain economic growth and maintain social stability. Few have large, broadly based industrial and manufacturing sectors. Where such development has occurred, firms often are dependent on agro-industrial activities for their survival and growth Most African countries rely on one or more export crops for substantial contributions to national economic growth and foreign exchange earnings Even in countries with more diversified economies, agricultural exports are often critical determinants of regional prosperity and government revenues.¹

If these statements are considered accurate, TR must seek ways to further the Africa Bureau's commitment to agribusiness development beyond MDI's efforts² and institutionalize a comprehensive, bureau-wide, agribusiness development initiative.

With so many obstacles to confront, sub-Saharan Africa does not represent an ideal environment for investment. However, increasing agribusiness potential can be achieved through directed and pragmatic assistance. Many of sub-Saharan Africa's problems are self-taught and self-inflicted. They are the inevitable result of public policy environments that discriminate against the agricultural sector—the very sector that, more than any other, plausibly offers more potential for long-term, sustained economic growth.

¹Ithaca International, *Agricultural Markets and Economic Development in Africa*, 8, 13.

²MDI admits that less than 20 percent of its personnel have backgrounds in agriculture and/or agribusiness, quite the contrary from personnel assigned to TR/ANR.

Agribusiness Development: Successes and Failures

... to learn from the successes and failures, strengths and weaknesses of public and private agribusiness development programs, past and present.

In contrast to developed countries, which generally subsidize and protect agriculture, most developing countries discriminate against the sector. Farmers in developing countries usually have little or no influence on government policies.³

By discriminating against the private sector, African governments have inhibited the development of broad-based, indigenous entrepreneurial classes and competitive marketing systems. When the private sector has been able to operate freely, such as with tree crops in Kenya, coarse grain marketing in West Africa, and horticultural or livestock marketing in other countries, marketing systems function fairly well and remain relatively efficient.⁴

The following examples are symptomatic of failing policies and programs.

1. Ghana and Burkina Faso. Maize and rice from Ghana are sold in Burkina Faso to obtain foreign currency. A parallel market on animals also flourishes. Burkina Faso's 13 percent export tax on cattle is ignored by traders who take their herds into Togo "for grazing" and do not return with them. The traders' information network is extremely efficient: Operators are kept up to the minute on produce prices, policy changes, and fluctuations on the exchange rates of bordering countries. In Ghana, merchandise is transported mainly on trucks and then transferred to bicycles for the border crossing. During a single day about 730 bicycles were counted moving across the border into Burkina Faso.⁵
2. Zaire. Farmers can harvest maize in January but cannot sell it or move it until June because the government allows selling only within the official marketing season (June to December). Meanwhile, Lubumbashi and other southern Shaba towns are

³International Finance Corporation (IFC), internal document, 61-62.

⁴*A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa*, Annex A, 20.

⁵*Strategic Framework*, Annex A, 19.

with maize imported from South Africa or smuggled from Zambia.

3. Zambia. Farmers are not allowed to sell maize directly to consumers or to millers. They are legally required to surrender their entire yield to the government through their cooperative unions. Meanwhile, the government loses two Kwacha for every Kwacha it pays farmers for the maize.
4. Kenya. A bush taxi driver is sentenced to several months in jail when he is caught with bags of maize in his trunk, because it is against the law to move maize across districts.

Informal Sector Growth

The International Labor Organization (ILO) estimates that the informal sector accounts for 59 percent of sub-Saharan Africa's urban labor force and contributes 20 percent of GDP (\$15 billion) in 17 countries studied. The informal sector thrives because of its responsiveness to market forces and because of its close links with grassroots institutions. Ease of entry and exit makes these small firms an outlet for the skills of entrepreneurs from all sections of society.⁶

Lopsided informal sector development, however, can, and usually will, have undesirable long-term consequences. In Peru, for example, relatively large businesses are forced to operate formally and pay more taxes than they would if informal activity did not exist, because the total tax burden is borne by a smaller tax base. This discourages many companies from expanding. The development of industries that need to be large to operate is constrained, because they cannot operate informally. In addition, tax evasion is so widespread that the state must invest in a large number of costly strategies to detect evaders who, in turn, expend resources trying to avoid detection.

In Peru, where the government is committed to satisfying needs by intervening directly and where there are few formal operations that the system can tax to cover these costs, tax rates are increasing. Consequently,

⁶World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, 138.

formal activity becomes less attractive, and informal activity continues to increase.

The same is true of Peru's public utility rates. It is estimated that almost half of Lima's water and electricity usage is unaccounted for. Most of these losses must be attributable to informals, who tap the water and electricity supplies illegally.⁷

It is easy to see why so much of the Peruvian private sector is informal: Legally established small businesses in Peru must devote roughly 40 percent of all their administrative employees' working hours to complying with bureaucratic procedures. For example, procedures for obtaining formal recognition of a minibus route would require 26 months. (In 1984, 95 percent of Lima's taxis, mass transit vehicles, and rental vehicles were operated informally.)⁸

Inevitably, the situation between the government and the informal sector grows increasingly chaotic. Recently, for example, hungry residents in various parts of Peru looted farms and orchards after the price of a kilogram of apples rose to nearly a week's minimum wage.⁹

Although entrepreneurs in the informal sector may be able to respond almost immediately to shifts in demand, they do not have access to credit and to other resources that formality would bring them. In Senegal, for example, 70 percent of exported produce is grown by small farmers (farming 0.2 to 0.4 hectare) grouped together to contract with exporters.

Although total exports of fruits and vegetables from Senegal have grown from 1.137 billion FCFA in 1981 to 3.097 billion FCFA in 1987 (with a peak of 4.602 billion FCFA in 1985), comparative yields and productivity are less than impressive. Yields of tomatoes in Senegal decreased from a high of 30 metric tonnes/hectare in 1969-1970 to a low of 6.2 metric tonnes/hectare in 1985-1986. Comparative average yields and average break-even, farm-gate prices appear in the following table.¹⁰

⁷De Soto, *The Other Path*, 175.

⁸De Soto, *The Other Path*, 93, 146, 148.

⁹*Washington Times*, 15 August 1990, A7.

¹⁰Holtzman, *Horticultural Marketing and Export in Senegal*, 25-26.

Country	Senegal	Morocco	Italy	France	Gambia
B/E price (FCFA/kg)	43	20	-	40	52.5
Yield (MT/ha)	15-20	40	50-60	50-60	11

More Effective Donor Assistance

As indicated in two agribusiness development project evaluations, uncomplicated and less bureaucratic programs that provide more adequate long-term technical assistance from professionals with real "hands-on experience"¹¹ will increase chances for success. Another report states that "policy advice from donors has tended to be based more on the logic of neoclassical economic theory than on empirically grounded observations,"¹² implying a need for a more practical focus.

The following examples illustrate some foundation for this perspective.

1. World Bank. Horticultural export projects were designed on the basis of "erroneous assumptions about the demand for fresh produce, and failed to take into account the specific quality, packaging, promotional and quantity requirements of the Western European markets. Project design was essentially left in the hands of production-oriented experts; little attention was paid to marketing institutions or to practical experience with what worked in different countries. Virtually no attention was given to the mechanics of commerce (for example, trade finance, payment systems, airfreight arrangements). These latter omissions are very much harder to excuse than mistakes in demand forecasts."¹³
2. World Bank. The Turkey, Fruit, and Vegetable Export Project was intended to combine production, postharvest processing, transport, and export marketing. The assumption appears to have been made that a large, off-season fresh produce market in Western Europe could be reached simply by providing the technical and physical facilities to improve product quality and to ensure freshness on delivery. There is no evidence of concern or appreciation of the complexities of marketing requirements to

¹¹Experience Inc., *Agricultural Crop Diversification/Export Promotion Cross-Cutting Evaluation*, 111-18.

¹²AMIS, Holtzman, 51.

¹³World Bank, *Agricultural Marketing*, 44-45.

access targeted markets. Exports of perishable produce did not expand as expected.¹⁴

3. World Bank. A special study of market prospects for "Vranac" wine indicated a good market prognosis, significantly improving the forecasted viability of the project. What is not noted in the study, however, is that the wine consultant judged the wine and not the wine marketing system.¹⁵
4. Lake Victoria. Eight million Africans who live around Lake Victoria depend, as they have for centuries, on the tilapia, a delicious small fish preserved by sun drying, for protein. In a 1960s effort to promote tourism and sport fishing, authorities introduced the Nile perch into the lake. A voracious carnivore, the Nile perch soon began eating the tilapia, whose only recourse was to move to lower depths of the lake where it could not be so easily seen, and eaten, by the Nile perch.

At these lower depths, the tilapia does not eat as much of the algae, which grows in the lake's sunny upper waters. The algae grows relatively unhindered, dies, sinks to the bottom, and decays, depleting the bottom waters of oxygen and limiting the tilapia's zone of survival.

Africans living around the lake, no longer able to catch the tilapia, fish instead for the Nile perch, but the Nile perch is too big and too oily to be sun-dried; it must be smoked to be preserved. To smoke the fish, inhabitants cut down trees along the shore, creating a serious erosion problem.

Recent studies indicate that the bottom third of Lake Victoria is now lifeless. The tilapia is in trouble, existing in a thin zone below the Nile perch, but above the lifeless lower depths. The Nile perch is in trouble, having almost exhausted its food supply. Inhabitants of the lake's shoreline are in trouble, because their source of protein is in jeopardy. The entire ecosystem of the lake and its surroundings is in trouble—all as a result of a well-intentioned and apparently harmless plan to boost tourism.¹⁶

¹⁴World Bank, *Agricultural Marketing*, 76.

¹⁵World Bank, *Agricultural Marketing*, 75.

¹⁶*Washington Post*, 5 June 1989, A3.

A Better Example

The news is not all bad, however. In the Small Farmer Cooperative (SFC) component of the Agribusiness Development Project (ADP) in Guatemala, a long-term consultant has successfully assisted a small cooperative of strawberry growers in improving its performance and capability in virtually every aspect of the farm-to-market system for strawberries, including production and postharvest technology, transport, finance, market linkage, and general management.

The consultant is not specifically a "production specialist," but he does have considerable previous experience in strawberries and in marketing. The evaluation team cites the following characteristics of the consultant as the keys to his success.

- A thorough understanding of the culture of the cooperative's members;
- Organizational skills;
- Resourcefulness;
- Perseverance in the face of numerous frustrating obstacles; and
- Initiative.¹⁷

Keys to the success of the Small Farmer Cooperative could be used readily to describe any successful entrepreneur. For agribusiness development to succeed in sub-Saharan Africa, it will be necessary to take a simple, pragmatic approach to promoting entrepreneurship and management and to demoting public sector policy and regulatory barriers.

Logical Conclusions

Policy Environment

Where governments have implemented consistent free-market exchange and tariff and incentive policies, and where their regulatory and other types

¹⁷Experience Inc., *Agricultural Crop Diversification*, 111-21.

of official interventions have been reduced, Crop Diversification/ Non-Traditional Agricultural Export (CD/NTAE) initiatives have moved forward quickly. Conversely, where respective governments failed to implement appropriate policies and intervened excessively in production and marketing activities, CD/NTAE activities slowed in growth or came to a full stop.¹⁸

Management and Entrepreneurship

An important element in developing the capability of a country to grow and market an export crop is attracting entrepreneurs who are committed to learning how to grow and export a crop. The basic skill that would appear to be required is not so much a knowledge of agriculture but rather a desire to succeed.¹⁹

Of 15 agricultural projects approved since 1972, completed through 1987, and financed by the International Finance Corporation (IFC), at least 6 or 7 projects would have had higher yields if management and marketing problems could have been avoided.²⁰

Often overlooked, marketing is a critical component of management and a vital factor in the success of any enterprise. Substantial differences in exporters' and importers' perceptions of the import/export business, however, still exist, particularly in the identification of components of a long-term relationship. In one study, 95 percent of importers rated product marketability in the United States as "very important," whereas only 84 percent of exporters rated that factor as very important. Similarly, although 88 percent of importers rated reliable shipping from the supplier as very important, only 62 percent of exporters rated it similarly.²¹

The success of Japan and the Four Tigers is at least as much the result of importers' willingness to teach as of exporters' desire and ability to learn. Importers who took on the teaching role, however, generally did so because they had no other choice. There simply were few experienced suppliers from whom they could easily purchase at an acceptable price. Now, of course, the situation has changed, and exporters must take

¹⁸Experience, Inc., *Agricultural Crop Diversification*, 1-14.

¹⁹Byrnes, *From Melon Patch to Market Place*, 25.

²⁰IFC, internal document, 18.

²¹*Columbia Journal of Business*, Winter 1988, 52-55.

responsibility for their own learning. The burden lies heavily on the exporter/supplier to understand the buyer's needs and to develop skills to meet them.²²

Applied Constraints

The following constraints to joint ventures apply to agribusiness in Senegal, but they are applicable to many other countries as well.

1. Limit of 49 percent foreign ownership in the food industry
2. Lack of identified viable Senegalese partners
3. Poor investment climate
4. High tax burdens
5. Investment codes that disfavor agriculture
6. Very limited formal agricultural credit
7. Weak judicial system
8. Lack of respect for contractual obligations
9. Adverse land tenure system
10. Powerful labor unions
11. Low labor productivity
12. Negative perceptions about Senegalese attitudes toward private investment
13. Competition from the informal sector²³

Of the constraints to joint ventures listed above, the first 10 are directly attributable to weaknesses in either private sector management or the public sector policy environment. The last three constraints are related indirectly to these two areas, and their effect can be expected to diminish

²²*Columbia Journal*, 55.

²³Holtzman, *Horticultural Marketing*, 68-69.

significantly when private sector management and public sector policies are addressed.

By taking a pragmatic approach to the development of entrepreneurship and the improvement of management, and by taking a similarly practical approach to the elimination of disincentives and discrimination against agriculture in sub-Saharan Africa, many of these problems can be resolved. A practical, effective approach to these two major areas can genuinely benefit the development of agribusiness in this region and can remove many of the constraints to joint ventures and foreign investment.

COMPONENTS OF AGRIBUSINESS

Business management: That part of the business concerned with the coordination and integration of the various components (items 1-5) to achieve the maximum, or most effective, result. (In a very broad sense, business management was very much lacking in the introduction of Nile perch into Lake Victoria.)

The following five business components, when properly coordinated and integrated, can achieve effective results in any enterprise.

1. **Finance.** This aspect of an enterprise is concerned with monetary affairs, including the acquisition and disposition of the firm's resources, the in-flow and out-flow of funds, and borrowing and credit.
2. **Marketing.** This aspect of an enterprise is concerned with meeting consumers' demands for goods and services and with conveying those goods and services from producer to consumer, including estimation of demand, promotion, pricing, grading, packaging, storage, and distribution. Perhaps the most often overlooked and least understood components of agribusiness—marketing knowledge, marketing information, and marketing effectiveness—are vital to the success of an agribusiness venture. (The study of Vranac wine points this out very clearly.)
3. **Procurement.** This aspect of an enterprise is concerned with acquisition of goods, including materials, parts, supplies and equipment, required to carry on the enterprise.
4. **Administration.** This aspect of an enterprise is concerned with coordination, integration, direction, and control of subordinates' activities.
5. **"The Vision Thing," or Entrepreneurship.** This aspect of an enterprise is concerned with the recognition of opportunities to introduce new products, innovative processes, or improved organization/management. It also is concerned with the development of those products, processes, or methods at some risk of failure or loss.²⁴

²⁴Joseph Schumpeter, in *The Theory of Economic Development* (Harvard University Press, Cambridge, 1934), maintains that the rate of growth in an economy depends, in large measure, on the activities of entrepreneurs. He refers to the entrepreneur as an economic figure who introduces "new combinations" of productive resources; who operates in an uncertain world; who has the courage to start up a new venture; who raises the necessary

Policy and Regulatory Environment

African governments, on the whole, have not had a good record in terms of laissez-faire agricultural policy. Commodity pricing policy biased toward urban consumers and prejudiced against rural producers is commonly recognized throughout much of sub-Saharan Africa. Government marketing boards and other parastatal organizations that become involved in price setting have, in many cases, stifled growth in the agricultural sector.

Rwanda is one exception to the foregoing statement and lends support to the argument of free-market economics. In Rwanda, the government has played a supportive but not overbearing role in agricultural development. By allowing the free market to set agricultural prices, food production in Rwanda grew at 4.7 percent annually between 1966 and 1982, while the population grew at 3.4 percent. In addition to laissez-faire pricing policies, Rwanda also pursued realistic exchange rates and fiscal priorities.

Growers, whether from California or Cameroon, tend to react similarly to economic signals no matter what they are producing. When farm-gate prices are allowed to reflect world market conditions, growers will react accordingly. If world prices fall to unacceptable levels, growers will react by producing alternative crops that show promise for greater returns. Any distortion that a government creates, such as price supports, set-aside programs, or rigid pricing policies, will interfere with the grower's reaction to the marketplace and will eventually lead to distortions in the balance of supply and demand.

Credit and Banking Facilities

Those institutions, organizations, and individuals that facilitate the exchange of goods and services in return for a promise of future payment, and that bridge the gap between production of goods and their final sale and consumption.

In promoting foreign investment in sub-Saharan Africa, USAID will find a double-edged sword in setting priorities or ranking countries in terms of

funds, assembles the factors of production, and organizes management for that venture; and who must be strong enough to swim against the tide of society.

their attractiveness to international investors. Most investors will be concerned with the ability to repatriate profits from operations in host countries, as well as with minimizing remittances from third country sales to host countries. From the host country's perspective, liberal repatriation and remittance regulations may encourage external investment but may not necessarily help their current accounts situation because investors choose to keep money offshore. To encourage repatriation, policies should be implemented in the host country that allow businesses to maintain part or all of their liquid capital in hard-currency accounts with ready access. Often, these accounts will yield returns lower than those on local currency accounts; however, local inflation rates, if greater than hard currency rates, will be no more attractive to the investor.

Combining requirements of repatriation and liberal banking regulations may be the best combination to satisfy the needs of both the investor and the host government. This could be accomplished by requiring some percentage of offshore sales income to return to the host country but allowing that income to be held in a liquid, hard-currency account.

Market Knowledge

Each area of this vast geography has its own set of advantages and disadvantages. In each region, specific programs should be developed that best use local resources. To achieve food self-sufficiency, sub-Saharan Africa will need to increase its food production by about 4 percent per year. To increase incomes and meet Africa's food import needs, the production of export crops must also grow by at least 4 percent per year.

The path that African agro-export businesses take will not and should not necessarily follow that of Latin America; however, several similarities and lessons can be adapted to specific regions within sub-Saharan Africa.

In the sectors of fresh and processed foods, sub-Saharan Africa does have a strong group of successful agribusinesses competing in regional and international markets. These firms, as in Latin America, tend to be located in specific regions that afford them a comparative advantage in a particular product that they produce or process.

Unlike many Latin American firms, many African firms tend to be estate or parastatal. Often these firms have efficient packing, processing, and logistical systems; however, they are not accessible to the small producer. This is in contrast to more competitive and less stratified agribusiness systems found in some Latin American, European Community (EC), and North American countries. Frequently, estate or parastatal firms in sub-Saharan Africa do not want to handle products produced in small volumes by African growers, because this is often unprofitable. They also do not want to deal with the problem of inconsistency in quality that occurs with smaller producers. To address these problems, production agribusinesses, regardless of size, will have to demonstrate that they are capable of producing quality products in volumes that will be of interest (that is, profitable) to processors, packers, and shippers.

Two organizations in southern Africa that have outstanding records in the international marketing of fresh fruit are the UTSPAN label of citrus and the CAPE brand of deciduous fruit. Both of these market coordinating bodies are considered powerful, world-class players, active in EC, Asian, and Canadian markets. The UTSPAN label is owned by the Southern African Cooperative Citrus Exchange Limited (SACCE). This organization acts as a central marketing coordinator for products from South Africa, Mozambique, Zimbabwe, and Swaziland. Its membership is voluntary and currently includes 34 cooperatives, marketing 30 million boxes of fruit in 32 different countries. Gross sales are estimated to be in the US\$400 to US\$500 million range. Although it represents only 60 percent of the citrus grown in southern Africa, it accounts for 90 percent of the revenues.

CAPE is a similar organization that markets deciduous fruit. CAPE gross sales, however, are estimated to be significantly greater than those of UTSPAN. The key point in analyzing CAPE's and UTSPAN's roles in southern African fresh produce marketing relates to their main purpose, which is to optimize efficiency in cargo handling and marketing. These are extremely relevant issues to any African grower, big or small, trying to enter the world market.

Besides their main functions of logistics and marketing, these organizations act as a conduit of information (extension function) to growers, packers, and shippers. The organizations also provide economic research and advisory services to growers for analyzing market trends and recommending new varieties for replacement plantings in line with consumer tastes.

International agrimarketing has a large economy of scale. This is clearly seen in both Latin American and African logistical operations. In the southern Africa example, SACCE has citrus terminals in Maputo, Durban, and Port Elizabeth. It is estimated that, without collective handling, each grower would have to pay approximately US\$0.80 more per box than current freight rates. This increases a grower's return by about 16 percent, if the \$US15/box auction price in Rotterdam is assumed (using the industry rule-of-thumb of one-third of the gross to the grower, one-third to the shipper, and one-third to the packer/marketer). Assuming a ship will carry 400,000 boxes, SACCE can expect a logistical savings of US\$320,000/vessel/voyage.

These points have significant context in the environment, especially if A.I.D. planners are to understand the scale of agri-business/international logistics/marketing and if they intend to ask growers to compete in this environment.

SACCE growers have an advantage over many Latin American exporters, particularly in Chile, where competitive rates for large consignment shipping volumes are a closed club. Contracting ships and receiving volume discounts are available to only a handful of the largest firms operating in the Chilean business; whereas in southern Africa, even small growers can benefit from logistical economies of scale through organizations such as SACCE. This is a major comparative advantage of southern African growers over their Latin American counterparts. In this may lie foundations for competitive marketing systems available to African growers, if they can produce a quality product.

Many windows of marketing opportunity have been filled over time. New players gain market shares by delivering quality products and being low-cost operators—not simply by delivering a product during a given high point in the marketing year. This is particularly true because high-point market prices usually result from additional costs incurred in delivering the product to market; therefore, the low-cost operator will consistently see better returns even as market highs drift over time. Agricultural markets are elastic and finite, and it is wrong to assume that they can absorb all the fruit that is delivered to them. For this reason, it is important for A.I.D. planners to fully target agrimarkets that can be entered at the lowest cost, from the producer's standpoint, with a high quality product.

In the political sense, for the southern African region, USAID should consider the new emerging political environment. USAID should also recognize the great advantages in economies of scale that can be realized if links are forged between organizations that previously have been considered politically unacceptable by reason of association (South African-dominated marketing organizations such as UTSPAN and CAPE). Working with these organizations or their close cousin (the Swazi Citrus Board) can help avoid bottlenecks, and small growers can realize the same economies of scale that usually are reserved for only the largest players in the industry.

For countries throughout sub-Saharan Africa, the reasons for cooperation in regional and international agrimarketing are strong. Some of these reasons include

- Economies of scale and logistics, marketing, and inputs;
- Access to ports for landlocked countries;
- Flexibility in shipping;
- Exposure to larger markets and economies of scale in market intelligence; and
- An economic multiplier effect in the target geography as grower income increases.

These add up to risk reduction, as well as higher returns, for the grower, packer, and shipper.

Eastern European Markets

For the African producers, the Eastern European market has three advantages. First, it is far less demanding, in quality terms, than are Western European markets (in fact, much of the second-grade fruit arriving in Rotterdam is transshipped into Eastern Europe). Second, there appears to be strong demand for some products. Third, Eastern European nations and African nations could develop a symbiotic trading relationship in certain agricultural products: Specific African nations/geographies possess comparative advantages in the production of products demanded by Eastern European

consumers and Eastern European nations possess comparative advantages in agricultural input production (for example, in fertilizer and other inputs).

Marketing Linkage

Assisting local African firms in forging economic relationships with existing, functional agrimarketing organizations is one direction that USAID should explore in designing its programs. Relationships can be established by

- Assisting in formation of joint ventures;
- Providing venture capital in equity (grants) or loans;
- Assisting producers in contracting with existing regional and international firms (processors, exporters, and marketers);
- Assisting producers in identifying market outlets (brokers, agents, others); and
- Strengthening investment promotion programs.

Joint Ventures

Facilitating joint ventures is one method by which USAID can pursue agrimarket development in sub-Saharan Africa. These programs are likely to rely heavily on personal contacts between key USAID representatives and various firms, both locally and internationally, interested in exploring joint ventures. This is not a traditional area of operation for USAID, and because of the broad geographic nature of the endeavor, such activities might be best pursued as a bureau or regional program rather than as a country program.

Joint ventures are a highly effective way for both local and international firms to realize synergism within an economy. From the foreign investor's point of view, the following basic rules provide for good partnerships in joint ventures. They state that indigenous partners should

- Have closely related fields of interest with similar or complementary product lines;

- Be staffed by nationals and not rely solely on expatriate professionals;
- Be large enough to serve as a regional base for expansion within the region;
- Not be heavily dependent on the import of raw materials;
- Not be dependent on exports, but rather should have some domestic market strength; and
- Provide good profit potential to justify the greater risk of investment in a less developed country (LDC).

From the African company's perspective, the following basic rules provide for good partnership. They state that the multinational firm should bring

- Strong international marketing and distribution resources, as well as a depth and breadth of understanding of their industry;
- Technical know-how that will assist the local firm in optimizing operations;
- Capital that will assist in expansion; and
- A management philosophy that encourages decentralized planning and decision making, which allows the local partner to manage operations and develop strategies.

It is presumptuous that any international partner would be willing to undertake a joint venture unless the host country's policies, politics, economics, and environment were, overall, conducive to business.

Venture Capital

An additional instrument that USAID should consider in encouraging agribusiness development in sub-Saharan Africa is providing venture capital in various forms. Venture capital is particularly effective in assisting medium-sized local firms in business expansion. By targeting pre-existing

businesses, USAID is able to reduce investment risk by using its ability to have business operations of a firm analyzed before committing to it financially.

Programs such as USAID's Eastern Caribbean-based High Impact Agricultural Marketing and Production Project (HIAMP) have shown that venture capital can be used effectively in promoting both business expansion, as well as business start-up, within the agricultural sector. However, HIAMP also demonstrates the need to structure the administration of the project to produce optimal cooperation among the venture capital funds' board of directors (trustees), its operations managers, and its equity partners.

One method of achieving improved administration of projects such as HIAMP would be to implement a venture capital group within a pre-existing financial organization, such as a local bank or credit cooperative. By capitalizing a venture capital group within a pre-existing financial institution, managers will benefit from the institution's years of experience operating within the community. From the client's standpoint, having the venture capital group associated with an existing financial institution formalizes the client's perception about the nature of the organization. This is important in countries where venture capital is not a commonly understood method by which financing is accomplished.

Flexibility is also an important requirement for any venture capital group, and it is imperative that board members have the ability to evaluate and allocate resources based on their confidence in a project. This means that boards should be able to participate with greater than 50 percent equity, which is the norm in most publicly financed venture capital projects. If a board has confidence in a business and its people, it should be able to assist, through equity and debt participation, in the 70 to 80 percent finance range or, at most, 90 percent. This would bring public venture capital more in line with procedures used in the private sector.

Programs that assist in matching producers to markets and marketers to producers also represent areas that may be facilitated successfully by USAID. These programs can be included in broader investment promotion programs, such as the USAID-assisted Costa Rican Investment Promotion Program (CINDE), which has had some success in attracting foreign investors into the agricultural production and export sector. To keep projects such as CINDE in perspective, it must be remembered that this type of investment

promotion program usually includes a broad range of business incentives for the international investor or local exporter. Investment incentives, such as free market policies, export tax credits, tax holidays, venture capital, training tax credit, liberal regulations for repatriation of profits, and realistic property and labor laws, are part of assembling a successful investment promotion program.

International investors can choose from a wide variety of countries when investing their money. African countries embarking on agribusiness-investment promotion as a vehicle to promote agribusiness will have to structure their investment promotion packages and agripolicies consistent with other countries that are competing for the same investment dollars. Without strong host government support in developing competitive country promotion programs, USAID's funds would be best spent elsewhere.

Production Knowledge and Production Capability

In designing strategies for agricultural market development, it will be essential to identify countries or geographies that have real comparative advantages in the marketplace. USAID will have to continue to encourage countries to change policies that subsidize, protect, discriminate, or otherwise distort realities of the marketplace in order for their products to maintain market share. To best identify a product's comparative advantage, USAID planners should concentrate on identifying firms and countries that are or can be a product's low-cost operator (LCO). This strategy is the basis for development in the private sector, and the same rules that govern private sector development are also applicable to USAID's strategies in agrimarket development. In sub-Saharan Africa, where disposable income is severely limited, the importance of being the LCO when marketing locally or regionally is critical. In the international market as well, the high level of competition will force out all but the most competitive producers in the industry.

The inability of multilateral development organizations, such as the IFC, to identify and invest in LCO companies has been one obvious reason for poor performance of their agricultural portfolio. This reason also can be traced to the failure of other publicly and privately funded investments in agribusiness projects.

TR and Mission planners who critically examine program and project appraisal will be essential to the success of USAID's agribusiness and

marketing efforts. As USAID embarks on strategies and programs to assist agricultural market development, planners will need to reevaluate the criteria by which they judge projects and programs.

To thrive in international markets, African producers will need to be competitive in their transport and marketing economies. It can be assumed that roughly 33 percent of their costs will be in transporting products from sub-Saharan African regions to major international markets such as Rotterdam, Paris, and London. Costs could increase significantly if air freight is assumed as the primary mode of transportation. To remain competitive in this arena, A.I.D. will need to consider ways to reduce transport costs. One of the most effective ways to reduce them is through cooperative transport and marketing organizations.

A good example of how a government successfully assists in production and marketing programs in sub-Saharan Africa is set forth in Kenya. The facilitating government agency, the Horticultural Crops Development Authority (HCDA), markets some produce for small holders. It also provides market information to the agribusiness community, licenses horticultural exporters, establishes packing standards, participates in allocating air cargo space, and has worked to standardize containers. As a government agency, HCDA acts in a facilitating role but leaves the private sector to lead the way on types, pricing, quantities, and timing of products entering the market. Kenya's production of fresh horticultural exports increased from 1,500 tons (US\$434,000) in 1968 to 36,500 tons (US\$54.7 million) in 1987. Forty percent of the country's produce moves through the United Kingdom (UK) market; the remainder is distributed among approximately 30 other countries.

Quality

One impediment to obtaining market knowledge in sub-Saharan Africa is the lack of understanding of and producing to quality standards of world markets. Product quality standards in general will have to improve as markets expand from local to regional to international. Without quality improvements, many products will not be competitive in the world marketplace today. Volume production, particularly in horticultural and value-added products, is not the primary issue in the marketing of agricultural goods. Focus must be placed on giving the market what it demands, which are quality products.

It is essential that A.I.D. planners begin to take a holistic approach when developing programs concerned with marketing in agribusiness. The emphasis should go beyond marketing to include all aspects of production, quality control, and logistics as well.

To introduce improved quality production, both market and production knowledge will have to be conveyed to growers. This might be accomplished in several ways. One example from which Africa may be able to draw are the private extension programs used by packers and shippers in Chile. A typical packing house in Chile will receive fruit from tens to even hundreds of growers. To ensure that a quality product is delivered, packing houses employ small armies of field representatives with technical backgrounds, who assist growers in everything from varietal selections and cultural practices to harvest logistics and timing. Field representatives act as the key extension link in helping growers provide a profitable quality product to the packing houses for export. It is, of course, in the best interest of the packing house to ship only the highest quality fruit possible, because international markets tend to be very unforgiving when "junk" is delivered. Further, growers in Chile focus on high quality and international markets because these economies provide the margins that growers, packers, and shippers must have to stay in business.

Chile's experience in the development of its horticultural industry has not been lost on its neighbors. Uruguay's citrus industry has evolved as a hybrid with some aspects resembling the Chilean horticultural industry and other aspects resembling Uruguay's southern African market rival, UTSPAN. The Uruguayan citrus industry has two main marketing groups—APCU and UPECU. APCU markets under the URUDOR label. It consists of a small number of large producers, similar to the profile of export citrus producers in Zimbabwe, Mozambique, Swaziland, and South Africa, marketing through UTSPAN. URUDOR is considered a high-quality producer in its primary export market—Rotterdam.

UPECU is made up of many small, independent growers. It is known for its good organization but has had limited success in dealing with quality control because of the difficulty in coordinating the large number of growers and packers that make up the group.

It must be understood that the Chilean agro-export model grew out of some 30 years of development. The first shippers began in the late 1950s with small volumes and, slowly, as technical expertise in Chile improved and external markets were developed, the industry grew. In the late 1970s and early 1980s, Chile achieved a combination of technical knowledge and market development, which ensures its future as a major player in the world's horticultural products market. Sub-Saharan Africa is likely to take a long time to develop a firm share of major export markets. Any program that A.I.D. undertakes must have a long-term perspective and must be broad in scope.

Market Access

The ability of sub-Saharan African producers and traders to move products freely within countries and across international borders has suffered severely under heavy-handed agricultural policies imposed throughout the region. The move to a greater laissez-faire/facilitator role by government is a giant step for opening markets.

Markets can be broken down into three major types, based on geography: national, regional and international. International markets are defined here as those that lie outside of the sub-Saharan region. The primary international market for the sub-Saharan region is the European Community; however, the Middle East, particularly the Gulf states, represents important markets for specialized horticultural products. This is particularly true of the Kenyan horticultural export industry.

The most accessible markets to most growers and traders in Africa are local markets; however, from an economic standpoint, these markets may not always represent the best market for the grower. Nevertheless, they do provide an outlet for low-quality products that otherwise would have difficulty trading at profitable levels in international markets.

With the limited disposable income of consumers throughout much of the region, the local market does not represent a high-growth opportunity for nontraditional or high-value products. It does provide an important starting point for agribusiness people to begin to understand and use fundamentals of the marketplace. Local markets must be emphasized early in the design of

A.I.D. agrimarketing programs because they are the foundations upon which entrepreneurs will build businesses.

Regional markets also should play a paramount role in any long-term A.I.D. planning. The level of activity in regional markets will provide a good yardstick by which A.I.D. will be able to measure policy reforms and program effectiveness. Regional markets also will provide a lower-risk alternative than international markets and may provide better returns than local markets.

Quality will be an important factor, regardless of the market. Regional markets allow local producers and traders to improve their quality control skills before entering higher-risk, higher-return international markets. It is possible that the majority of medium-sized agribusinesses targeted by A.I.D. programs in agri-market development will have a better chance of success in regional markets than in international markets, primarily for the following two reasons.

- Regional markets within sub-Saharan Africa will be less stringent regarding its product quality requirements.
- Capital costs required per unit of goods sold will, in most cases, be lower in regional than in international markets.

Sub-Saharan Africa generally enjoys liberal market access to the EC under the LOME III convention. Given the competitive market access into the EC under LOME III, A.I.D. should assist businesses and governments in identifying specific products that have a duty-related comparative advantage over non-LOME competitors.

Sub-Saharan Africa does have some real advantages in competitive tariff rates and quotas that help it market its products within the EC.

SUPPORT INTERVENTIONS: DELINEATING TR'S ROLE AND OBJECTIVES

Theoretical approaches to the solution of problems concerning agribusiness development are inadequate; practical, results-oriented approaches must be carefully and effectively developed to

- Greatly reduce the constraining effect of public sector policy;
- Encourage more private sector management; and
- Direct, promote, and legitimize existing entrepreneurial efforts, most of which are in the informal sector.

For the public sector these approaches will take the form of information and knowledge concerning noncompliance with policies and the real costs of those policies on the country as a whole.

For the private sector these approaches will take the form of information and knowledge concerning markets and market potentials, how to access those markets more effectively, and how to realize more of their sales and profit potential.

In conjunction with Mission planning, TR should consider the interventions described hereinafter to accomplish the following objectives.

1. Establish and institutionalize, with Mission input, specific and strategic bureau-wide agribusiness objectives based on composite needs assessments and a realistic sense of different market segments to be exploited. Before programs can be designed, however, TR will need to identify specific regions and countries that provide the best opportunities for successful implementation of future programs and projects.
2. Determine the overall direction and specific support interventions that TR will need to provide to accomplish these objectives.
3. Develop a bureau-wide strategic plan of action for TR to implement with, and/or on behalf of, the Mission.

TR can accomplish these objectives by refining and providing six support interventions listed below and envisioned from the concepts contained herein.

**Diagnostic and Monitoring Support:
Collecting Data—Economic Indicators
For Agribusiness Development (EIFAD)**

The ability to diagnose and monitor various economies and geographies within sub-Saharan Africa is essential to the planning, implementation, and evaluation stages of programs dealing with agribusiness development. Given the costs and long-term nature of a program involved in agribusiness development, it is paramount that appropriate country "candidates" be selected for specific interventions based on their overall "agribusiness climates."

The EIFAD survey is intended to be an uncomplicated, time-effective database that can be used in a cursory analysis²⁵ of a country's agribusiness environment. The resulting database can be used in concert with public and private sector entities for monitoring changes in the agribusiness environment within a single country and, for overall TR purposes, as a baseline of comparison between two or more countries.

Indicators that appear in the survey have been selected principally for their relationship to fixed and variable costs of operations in the agribusiness sector. The emphasis in selecting indicators is on identifying variables that affect a broad range of agribusiness costs and key investment benchmarks.²⁶ Other indicators were chosen to reflect some basic overview of country conditions.

The survey tracks both the value and volume of agricultural outputs and inputs. By providing a multiyear history of each component for each crop and product chosen, TR and the Missions will be able to monitor change over time. Consequently, a correlation between change in data and interventions could be established as one effectiveness measure of some future agribusiness development program.

²⁵An early EIFAD survey of Lesotho, "Mock Analysis of Lesotho EIFAD Data," an updated version of the survey form, and instructions appear as Appendixes A-D.

²⁶Examples of such benchmarks include the ability to move funds across national borders and absences of government monopolies on export trade.

For example, the occurrence of dual economies can be easily seen throughout Africa. Production systems involving sugar, bananas, rubber, citrus and, to a lesser extent, cotton, coffee, and tea have, from an historical standpoint, tended to evolve out of an estate-type or vertically integrated production/processing operation. Many of these crops do realize improved economies through vertical integration; however, the impact of the economic multiplier effect is minimized because funds remain largely within the estate. Investments in estates may show a good return on investments (ROI) for the investor but may not contribute to the local economy as much as smaller, locally owned operations. This, in part, is some justification for TR and Missions to target medium-sized local firms for agribusiness development programs.

The EIFAD model, when identifying crops and products to monitor, can clarify that estate crops often play a large part in agro-export earnings. These crops often receive better statistical monitoring by the various ministries than the more difficult-to-monitor informal sector crops due, in part, to their economic importance and historic role played in a particular country.

Informal economy crops often tend to be particularly difficult to track statistically because they remain largely outside the formal sector. Unlike major export crops, which should be accompanied by customs documentation and other government regulatory agency tracking, data for informal crops are not as readily available.

EIFAD is designed to assist TR planners and field staff in assessing both the formal and informal sectors. Flexibility has been built into the model to allow field staff to select crops that represent both sectors and that have reliable statistics available over time.

Analytical Assessment and Planning Support: What Do These Data Indicate?

In addition to monitoring potential, EIFAD is intended to facilitate and support an ongoing strategic agribusiness planning process by providing current information required in the development of agribusiness financial models. Although it is not the purpose of the survey to identify all variable

costs and constraints associated with the wide variety of agribusiness ventures possible in any one country, it is designed to identify common costs and investment/economic components that are shared by firms throughout the agribusiness sector.

Assuming that analytical capabilities will vary in the field from Mission to Mission, TR would be able to provide analyses based on EIFAD and other available data (for example, MAPS) to complement Mission efforts and support Mission planning once the preliminary data described above have been collected.²⁷

Hypothetically, a Mission could send EIFAD data to TR by facsimile. TR would in turn submit to the field a preliminary analysis within 48 to 72 hours. Time pressures would be minimized and bureau-wide planning would become a more cooperative and mutually supportive and informed process. TR's responsiveness would be immediately felt by the Missions.

Information and Referral Support

With Mission cooperation, TR would become a center for African agribusiness development planning, database management, and analysis. TR would offer Missions comparative data for ongoing strategic planning purposes, monitoring and evaluation activities, market data, technical inputs and training referrals.

Through TR, Missions would have immediate access to diverse and current information on what is happening in the African agribusiness arena that could affect country programs and how Missions are contending with developing and implementing agribusiness strategies.

In addition to EIFAD data collected in the field, as well as country-specific agribusiness information from other sources (for example, UN, FAO), TR would need to have ready access to the most current international market data.

²⁷The level of analytical input required from TR would depend on a Mission's in-house capabilities. In any situation, TR would maintain EIFAD data and any analyses provided by Mission and/or TR personnel.

Policy Analysis, Planning, and Reform

Improving investment climates and business environments will increase the likelihood for effective agribusiness development initiatives.²⁸ Patterns of productive policy interventions already are being facilitated and documented as components of other projects (for example, APAP).

If specific agricultural and trade policy reforms increase the potential for successful agribusiness development, TR would become a channel through which effective policy reform is conveyed. While other policy resources exist and can be drawn upon by TR and the Missions, specific effective policy initiatives in the context of agribusiness would be monitored by TR and suggested to Missions.

One suggestion would be for TR to facilitate regional meetings between public policymakers and representatives of the private sector. The purpose of these meetings would be for TR to provide outlets for frank and constructive policy discussions where agribusiness people from one country can meet with public officials from another country without fear of retribution.

Training

TR could respond to an apparent absence of an annual catalog of available agribusiness training facilities and courses by developing such a database. To be more responsive, TR should develop a comparative view of field needs.

Based on needs jointly identified during an assessment and strategic planning process, a number of training opportunities would be provided to A.I.D. personnel responsible for agribusiness development initiatives and to local public and private sector participants in agribusinesses.

²⁸James W. Fox's report, *Is the Caribbean Basin Initiative Working?*, suggests that a close relationship exists between a country's growth rates, or "the failure of [other] countries to achieve them," and its willingness to support export growth through policy and institutional change.

Although technical assistance and training programs historically have focused on production-oriented issues, TR will need to pay greater attention to training issues generally perceived to be concerned with

- Training from professionals with real "hands-on" experience;
- The intention to introduce improved quality production, market, and production knowledge;
- The mechanics of commerce;
- The complexities of marketing requirements to access targeted markets;
- Marketing systems;
- Strengthening entrepreneurship and management skills of indigenous businesspersons; and
- Achieving technical and quality assurance programs to extend beyond technical assistance.

Other Related Support Interventions

Responding to Mission needs and specific requests, TR would need resources to

- Undertake subsector analyses;
- Address ways to improve transportation and infrastructure;
- Develop or strengthen associations and cooperatives dealing with the marketing, transport, processing, and so on, of agricultural products;
- Facilitate/broker market leads; and
- Identify and establish reasonable/achievable, strategically oriented goals and objectives on a targeted Mission-by-Mission basis and bureau-wide.

UNRESOLVED ISSUES

TR planners will need to discover how and where to balance their efforts to produce and institutionalize an agribusiness development initiative. Accordingly, the following 21 questions need to be addressed.

1. Should a future agribusiness development program place greater focus on assistance to indigenous entrepreneurs, prospective foreign investments, or combinations of these?
2. Should the development of local agribusinesses be the primary objective of such an initiative, or should an emphasis be placed on "brokering deals" and establishing joint ventures between U.S. or other foreign nationals and local partners?
3. Should production assistance or extension service be abandoned for international marketing and management training?
4. How should a greater proactive approach to agribusiness development take into consideration the need for increased Mission follow through?
5. What expectations will be placed on Missions, and how will they be equipped to meet them? What are the Missions' expectations of TR?
6. What role, if any, will TR have in effecting infrastructural improvements?
7. Who, ultimately, will be the targeted beneficiaries of an agribusiness development initiative?
8. What training activities will be designed to address agribusiness issues, and who will be eligible for such training? Will entrepreneurs be required to cover their own costs? What advance or preparatory training will be provided for Mission personnel?
9. To what extent can TR access other A.I.D.-funded programs and projects to deal with related issues, such as policy reform and small-scale enterprise development?²⁹
10. How, and to what extent, will credit and banking issues be addressed?

²⁹Examples include AMIS, APAP, PEDS, MDI, and so forth.

11. Can or should a distinction be made between "agribusiness development" and the "development of agribusinesses?" Will a heavier emphasis be on strategic macro-aspects of agribusiness development or on short-term microgains of developing agribusinesses?
12. What specific roles can and will Missions play in an agribusiness-development, strategic-planning process? Who from each Mission will be responsible for this activity and for follow through?
13. Will or should policy reform become an issue of conditionality before a country initiative can be implemented?
14. Will an overall initiative be determined by specific situations at all levels, or will TR use one or two basic approaches to agribusiness development?
15. How will issues involving state-owned enterprises be dealt with?
16. How much consideration will be given to regional markets when developing a country agribusiness development strategy?
17. Given the experience of other proactive units within A.I.D., what creative funding mechanisms will be available or can be developed to contend with a need for quick response contracting?
18. What criteria will be used in determining targets for a TR initiative? How will TR respond if a Mission outside the target group requests assistance?
19. Will recent increases in oil prices alter the strategic planning process?
20. What plans are being considered to contend with potential changes in the status of South Africa? How will positive or negative change in South Africa affect the strategic planning process³⁰? Will change in South Africa greatly affect funding issues?

³⁰For example, how will agricultural products from Zimbabwe compete with agricultural products from South Africa? In more general terms, how will developing countries compete in trading with large international markets when sanctions on South Africa are lifted?

21. How are other donors actively approaching agribusiness development in the field? How are Missions interacting with other donors in this context?

Appropriately responding to these questions will depend on a determination of where the greatest development impacts are to be felt and under what conditions. Identification of a future agribusiness development program will no doubt need to focus on how a true partnership between TR, the Missions, and other programs and projects already underway can emerge.

TR appears to be mandated with the role of institutionalizing agribusiness development as a significant A.I.D. objective and should firmly establish its leadership role.

Appendix A

EIFAD SURVEY

EIFAD
ECONOMIC INDICATORS FOR AGRIBUSINESS DEVELOPMENT

A. GENERAL BACKGROUND	ACTUAL
1 - Country	
2 - Per capita income	
3 - GNP growth	
4 - Official exchange rate	
5 - Official languages	
6 - Political system	
7 - Population	
8 - Population growth, percent/year	
9 - Education, years compulsory	
10 - Adult literacy, percentage	
11 - Adult literacy, percent males	
12 - Adult literacy, percent females	
13 - Unemployment, percentage	
14 - Unemployment, percent males	
15 - Unemployment, percent females	
16 - Health, life expectancy, years	
17 - Religions	
18 - Work force, sectoral percentages	
19 - Natural resources	
20 - Agriland area, HA	
21 - Area under cultivation, HA	
22 - Area under irrigation, HA	
23 - OPIC, existing agreement	
24 - IFC, existing agreement	
25 - EX/IM Bank, existing agreement	
26 - Agriculture as percent of total GNP	
27 - Percent of export income generated by agri-products	
28 - Other sectors as percent of total GNP	
29 - Percent of export income generated by other products	
30 - Membership in international organizations	
31 - Historical development	

BUSINESS ENVIRONMENT	ACTUAL	RELATIVE			
		a	b	c	d
1 - Government support of free enterprise, yes/no					
2 - Degree of agribusiness capital concentration, high/low					
3 - Degree of agribusiness product diversity, high/low					
4 - Inflation (3 year mean), percentage					
5 - Bank interest rates on deposits, percentage					
6 - Bank interest rates on commercial loans, percentage					
7 - Hard currency bank accounts available, yes/no					
8 - Currency exchange regulations, yes/no					
9 - External debt, USD					
10 - International banks and CPA firms operating in country, number					
11 - Remittance & repatriation of profits from domestic and foreign sales, yes/no					

(EIFAD continued . . .)

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**EIFAD
ECONOMIC INDICATORS FOR AGRIBUSINESS DEVELOPMENT**

2. OUTPUTS
(continued)

	Product	Year: 1989	Year: 1990	Year: 1991	Year: 1992	Year: 1993
7 - Packing and processing capacity (provide price differentiation by "processed" versus "fresh" in the comments section)						
Source: _____						
8 - Packing and processing, percent utilization						
Source: _____						
9 - Primary market location and percent market share						
Source: _____						
10 - Market channel and percent volume of channel (boards, cooperatives, associations, brokers, informal)						
Source: _____						
11 - Trade barriers into primary markets (export tax, tariffs, quotas, others)						
Source: _____						

- Comments:

3. INPUTS

Leading inputs Used in the Formal and Informal Agribusiness Sectors

	Product	Year: 1989	Year: 1990	Year: 1991	Year: 1992	Year: 1993
1 - Value of gross inputs						
2 - Volume of gross inputs						
3 - Input source (local or foreign, specify country)						

**EIFAD
ECONOMIC INDICATORS FOR AGRIBUSINESS DEVELOPMENT**

D. INPUTS

(continued)

Product	Year: 1989	Year: 1990	Year: 1991	Year: 1992	Year: 1993
4 - Market channels (boards, cooperatives, associations, brokers, informal) and percent volume of channel					
5 - Trade barriers on inputs (tariffs, quotas, others)					

6 - Available commercial storage, public and private

Storage	Capacity	% Utilized
Bulk		
Cold		
Frozen		

Labor	Daily Rate (Local currency)	Daily Rate (USD)	Benefits (%)	Employer Taxes (%)
Unskilled				
Skilled				
Managers				

ACTUAL **RELATIVE**

8 - Energy

Electricity, USD/KWH

Natural gas, bottled, or coal, USD/Kg

Diesel fuel, USD/LT

Fuel oil number 6 USD/LT

9 - Communications

Phone/fax basic line fee, USD/YR

Days from line order to phone installation

10 - Urea, USD/MT

11 - Toyota pickup (½ ton, 2x4), USD

12 - Packaging, number of box manufacturing firms operating

13 - Grain drying, cleaning, and milling facilities, number of firms operating

14 - Agriculture as percent of total government spending

	a	b	c	d
Electricity, USD/KWH	—	—	—	—
Natural gas, bottled, or coal, USD/Kg	—	—	—	—
Diesel fuel, USD/LT	—	—	—	—
Fuel oil number 6 USD/LT	—	—	—	—
Phone/fax basic line fee, USD/YR	—	—	—	—
Days from line order to phone installation	—	—	—	—
Urea, USD/MT	—	—	—	—
Toyota pickup (½ ton, 2x4), USD	—	—	—	—
Packaging, number of box manufacturing firms operating	—	—	—	—
Grain drying, cleaning, and milling facilities, number of firms operating	—	—	—	—
Agriculture as percent of total government spending	—	—	—	—

(EIFAD continued ...)

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**EIFAD
ECONOMIC INDICATORS FOR AGRIBUSINESS DEVELOPMENT**

TRANSPORTATION

International	Cost, USD/MT (prim. port to prim. market)	Capacity (MT/WK)	Utilization *(%)	Frequency (departures/ week)
Land (dry box)				
Land (reefer)				
Air				
Ocean (40 ft. container)				
Ocean (40 ft. reefer)				

ACTUAL

RELATIVE

a b c d

- Truck type generally available: tank, bulk, reefer, dry box, flatbed
- Truck availability, months of short supply
- Number of locally owned, independent, fleet trucking firms, capacity >= 250 MT
- Domestic truck transport costs, long haul, paved road, > 100 Km, USD/MT/Km
- Ship waiting time to dock, mean hours
- Port container handling, units/hour (port or railroad)
- Percent of freight handled through port as containers (port or railroad)
- Land transportation, (trucking) degree of regulation
- Ratio of primary and secondary roads to tertiary roads
- Miscellaneous transport costs (port fees, dock fees, air cargo, others)
- Transport comments (names of airlines, shipping and trucking firms servicing country)

ACTUAL	a	b	c	d
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---

ACTUAL

RELATIVE

a b c d

PHYSICAL ENVIRONMENT

- Soils percent of soil negatively affected by physical and/or chemical problems
- Water sources, volume
- Water quality
- Irrigation methods and technology (percent of growers using)
- Wastewater limitations
- Air resource limitations
- Sample location for meteorological data

ACTUAL	a	b	c	d
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---
_____	---	---	---	---

	J	F	M	A	M	J	J	A	S	O	N	D
- Mean monthly high temp., °C												
- Mean monthly low temp., °C												
- Hours below 7° C												
- Mean rainfall, mm												
- Last year's rainfall, (year _____)												

- Physical environment comments

uc

Appendix B

INSTRUCTIONS FOR COMPLETING THE EIFAD SURVEY

The attached data input form, when completed, will provide Missions and TR with data that will be used for strategic agribusiness development planning, monitoring, and evaluation purposes. These data should be readily available from host country government offices. The survey will require approximately 4 to 6 days to complete.

The survey is divided into six discrete sections requesting data that will most likely be available at the central planning office, ministry of economic planning, and/or ministry of agriculture of the host country government. Other in-country data sources will include the national chamber of commerce, national development corporation or investment promotion center, and the ministries of finance and trade.

Each section of the survey represents a crucial area for analyzing different aspects of a country's agribusiness development potential. One suggestion is that host country government representatives participate in as many aspects of the survey as possible.

Missions can develop their own analyses from data presented in the survey and can draw upon the resources of TR to provide additional analysis. TR will be able to analyze baseline comparisons as an attempt to discover a country's product-specific comparative advantages.

This analysis will include data comparisons with other countries in Sub-Saharan Africa and with producers in North Africa, the Middle East, European Community, etc. Specific baseline comparisons should be in areas such as

- Mean yield per hectare;
- Gross value per hectare;
- Estimated total cost per hectare (reflecting labor rates and other costs and efficiencies of production); and
- Transportation costs per hectare to primary market.

Although per hectare figures can be converted to per tonne figures, and vice versa, it is important to offer some comparative advantage profile.

DEFINITIONS OF RELATIVE INDICATORS ON THE DATA INPUT FORM

- I. **General Background**
 - Self-explanatory
- II. **Business Environment**
 1. **Government support of free enterprise**
 - a. Strong support and/or laissez-faire attitude by government
 - b. Modest support with few or sporadic regulations of free enterprise
 - c. Limited support with heavy regulations on free enterprise
 - d. No support with major restrictions to free enterprise
 2. **Degree of agribusiness capital concentration (formal sector)**
 - a. $\leq 40\%$ of agribusiness capital held by 20% of firms
 - b. $> 40\%$ but $\leq 60\%$ of agribusiness capital held by 20% of firms
 - c. $> 60\%$ but $\leq 80\%$ of agribusiness capital held by 20% of firms
 - d. $> 80\%$ of agribusiness capital held by 20% of firms
 3. **Degree of agribusiness product diversity**
 - a. 80% of agri-GDP derived from ≥ 10 agri-products
 - b. 80% of agri-GDP derived from > 8 to 10 agri-products
 - c. 80% of agri-GDP derived from > 6 to 8 agri-products
 - d. 80% of agri-GDP derived from ≤ 5 agri-products
 4. **Inflation (3-year mean)**
 - a. Inflation = 0% to 10%
 - b. Inflation $> 10\%$ but $< 20\%$
 - c. Inflation $\geq 20\%$ but $< 30\%$
 - d. Inflation $\geq 30\%$
 5. **Bank interest rates on deposits (1 yr CD)**
 - a. Deposit interest rate $\geq 4\%$ in real terms
 - b. Deposit interest rate $> 2\%$ but $< 4\%$ in real terms
 - c. Deposit interest rate $\geq 0\%$ but $< 2\%$ in real terms
 - d. Deposit interest rate $< 0\%$ in real terms

6. Bank interest rates on commercial loans
 - a. Rates $\leq 0\%$ in real terms
 - b. Rates $> 0\%$ but $< 7\%$ in real terms
 - c. Rates $\geq 7\%$ but $< 14\%$ in real terms
 - d. Rates $> 14\%$ in real terms
7. Hard currency bank accounts available
 - a. Hard currency accounts available, no restrictions
 - b. Modest or sporadic restrictions on hard currency accounts
 - c. Heavy restrictions or delays to access hard currency accounts
 - d. Major restrictions on accessing hard currency accounts, long delays, withdrawal limitations, freezing common
8. Currency exchange regulations
 - a. Open exchange, no restrictions on amount or medium of exchange
 - b. Modest or sporadic transfer barriers on exchange
 - c. Heavy exchange controls with possible blockage of funds
 - d. Major exchange controls, long delays in transfer of currency
9. External debt
 - a. External debt = $< \text{GNP} \times 1$
 - b. External debt = $\geq \text{GNP} \times 1$ but $< \text{GNP} \times 1.5$
 - c. External debt = $\geq \text{GNP} \times 1.5$ but $< \text{GNP} \times 2$
 - d. External debt = $\geq \text{GNP} \times 2$
10. International banks and/or CPA firms operating in country
 - a. ≥ 5 firms operating in country
 - b. 3-4 firms operating in country
 - c. 1-2 firms operating in country
 - d. 0 firms operating in country
11. Remittance and repatriation of profits from domestic and foreign sales
 - a. No repatriation or financial barriers
 - b. Modest or sporadic restrictions of remittance and repatriation
 - c. Heavy requirements for remittance on foreign-earned income and delays on repatriation of profits
 - d. Strict requirements for remittance on foreign-earned income and long delays on repatriation of profits

12. Ownership of real estate and property, legal status

- a. No restrictions on domestic or foreign ownership of real estate or corporate property/equity
- b. Modest restrictions on domestic or foreign ownership in either geographic or operation/product areas; limited restrictions on ownership of corporate property/equity
- c. Heavy restrictions on domestic or foreign ownership in either geographic or operational/product areas; heavy restrictions on ownership of corporate property/equity
- d. Major obstacles to domestic or foreign ownership of real or corporate property/equity

13. Ability to obtain clear title to agricultural real estate

- a. No restrictions in obtaining clear title
- b. Modest or sporadic restrictions in obtaining clear title
- c. Heavy restrictions in obtaining clear title
- d. Major obstacles in obtaining clear title

14. Foreign national travel and resident status

- a. No restrictions on travel in or out of the country, rapid processing of travel and resident visas and/or documents
- b. Modest delays (≤ 7 days) in travel and resident visa application process; no geographic limitations on in-country travel
- c. Long delays (> 7 but < 14 days) in obtaining travel and resident visas, entrance and exit visas required, limited geography in country may be off-limit to non-nationals
- d. Major limitations (> 14 days) on travel in terms of difficulty in obtaining entrance & exit visas as well as larger areas in country which are off-limits to non-nationals

15. Permits required for business investment, operation, transport, export, etc.

- a. No or few permits required for business start-up or operation; rapid and low-cost permit processing, open to all applicants
- b. Modest delays and cost in permit processing and/or controlled number of permits issued
- c. Heavy delays and high cost in permit processing and/or limited number of permits issued
- d. Major obstacles, including long delays, high cost, and major bureaucratic roadblocks, and/or few, if any, permits issued

16. Length of time required for business permitting process
 - a. All permits issued in ≤ 30 days
 - b. All permits issued in > 30 but ≤ 60 days
 - c. All permits issued in > 60 but ≤ 90 days
 - d. All permits issued in > 90 days

17. Corporate income plus turnover tax rate
 - a. Corporate tax rate $< 30\%$
 - b. Corporate tax rate $\geq 30\%$ but $< 40\%$
 - c. Corporate tax rate $\geq 40\%$ but $< 50\%$
 - d. Corporate tax rate $> 50\%$

18. Tax holidays
 - a. Tax holiday ≥ 15 years
 - b. Tax holiday ≥ 10 but < 15 years
 - c. Tax holiday ≥ 5 but < 10 years
 - d. Tax holiday < 5 years

19. Tax credit on exports
 - a. Tax credits $\geq 10\%$
 - b. Tax credits $\geq 5\%$ but $< 10\%$
 - c. Tax credits $> 0\%$ but $< 5\%$
 - d. No tax credits on exports

20. Investment incentives
 - a. Wide variety of significant investment incentives offered including, but not limited to: low interest loans, debt swaps, attractive tax system, export credits, export processing zones, liberal profit repatriation laws, etc.; major, positive impact on business bottom line
 - b. Modest level of investment incentives, may be limited to specific sectors in the economy or type of incentives offered; positive bottom line impact
 - c. Few incentives offered; limited impact to business bottom line
 - d. No significant incentives offered; no impact on business bottom line

21. Investment disincentives
 - a. No or few policy and/or bureaucratic obstacles to business; low and/or no corruption in public and private sector

- b. Modest policy and/or bureaucratic obstacles in business; modest corruption in limited levels of public and private sector
 - c. Heavy policy and/or bureaucratic obstacles to business; heavy corruption in several levels of public and private sector
 - d. Major policy and/or bureaucratic obstacles to business; corruption in public and private sector at all levels
22. Percent of agribusiness GDP generated by parastatal firms
- a. 19% or less
 - b. 20% to 29%
 - c. 30% to 39%
 - d. 40% or greater
23. Investment areas off limits to foreign or domestic persons/corporations
- a. No sectors of the economy off limits to investment; no specific business off-limits
 - b. Modest limitation in participation in specific sectors or business
 - c. Heavy limitation in terms of sector operation and/or specific business operations
 - d. Most or all sectors of the economy or specific business off limits to non-governmental firms
24. History of expropriation and nationalization of firms
- a. No history of expropriation or nationalization
 - b. Sporadic history of expropriation or nationalization
 - c. Periodic occurrences of expropriation or nationalization
 - d. Major occurrences of expropriation or nationalization

III. Outputs

Self-explanatory

IV. Inputs

- 1. Self-explanatory
- 2. Self-explanatory
- 3. Self-explanatory
- 4. Self-explanatory
- 5. Self-explanatory

6. Self-explanatory

7. Self-explanatory

8. Energy

Electricity

- a. Electricity cost $< .05$ USD/KWH
- b. Electricity cost $\geq .05$ USD but $< .10$ USD/KWH
- c. Electricity cost $\geq .10$ USD but $< .15$ USD/KWH
- d. Electricity cost $\geq .15$ USD/KWH

Natural gas, bottled gas, or coal

- a. Gas cost $< .25$ USD/Therm
- b. Gas cost $\geq .25$ USD but $< .35$ USD/Therm
- c. Gas cost $\geq .35$ USD but $< .45$ USD/Therm
- d. Gas cost $\geq .45$ USD Therm

Diesel fuel

- a. Diesel cost $< .25$ USD/LT
- b. Diesel cost $\geq .25$ USD but $< .50$ USD/LT
- c. Diesel cost $\geq .50$ USD but $< .75$ USD/LT
- d. Diesel cost $\geq .75$ USD/LT

Fuel oil (#6 or other)

- a. Fuel oil cost $< .15$ USD/LT
- b. Fuel oil cost $\geq .15$ USD but $< .25$ USD/LT
- c. Fuel oil cost $\geq .25$ USD but $< .35$ USD/LT
- d. Fuel oil cost $\geq .35$ USD/LT

9. Communications

Phone/fax basic line fee

- a. Line fee < 400 USD/yr
- b. Line fee ≥ 400 USD but < 600 USD/yr
- c. Line fee ≥ 600 USD but < 800 USD/yr
- d. Line fee ≥ 800 USD/yr

Days from line order to phone installation

- a. Order to installation < 6 days
- b. Order to installation ≥ 6 days but < 12 days

- c. Order to installation \geq 12 days but $<$ 18 days
- d. Order to installation \geq 18 days

10. Urea

- a. Cost of urea $<$ 100 USD/MT
- b. Cost of urea \geq 100 USD but $<$ 150 USD/MT
- c. Cost of urea \geq 150 USD but $<$ 200 USD/MT
- d. Cost of urea \geq 200 USD/MT

11. Toyota pickup ($\frac{1}{2}$ ton, 2x4)

- a. Toyota cost $<$ 8,000 USD/unit
- b. Toyota cost \geq 8,000 USD but $<$ 10,000 USD/unit
- c. Toyota cost \geq 10,000 USD but $<$ 12,000 USD/unit
- d. Toyota cost \geq 12,000 USD/unit

12. Packaging, number of box manufacturing firms operating

- a. 3 or more box manufacturers operating in country
- b. 2 box manufacturers operating in country
- c. 1 box manufacturer operating in country
- d. No box manufacturers operating in country

13. Grain drying, cleaning, and milling facilities, number of firms operating

- a. 3 or more operating facilities
- b. 2 operating facilities
- c. 1 operating facility
- d. 0 operating facilities

14. Agriculture as percent of total government spending

- a. Agri-spending \geq 9%
- b. Agri-spending \geq 6% but $<$ 9%
- c. Agri-spending \geq 3% but $<$ 6%
- d. Agri-spending \leq 3%

V. Transportation

1. Self-explanatory

2. Truck type generally available: tank, bulk, reefer, dry box, flatbed

- a. All varieties regularly available at competitive rates

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- b. 4 out of 5 varieties available with modest or sporadic limitations on availability and/or cost
 - c. 3 out of 5 varieties available with heavy limitations on availability and/or cost
 - d. 2 out of 5 varieties available with major restrictions on availability and/or cost
3. Truck availability, months of short supply
- a. Trucking available at competitive rates year-round
 - b. Modest or sporadic bottlenecks in availability/cost, 1 to 2 months per year
 - c. Heavy bottlenecks in availability/cost, 3 to 4 months per year
 - d. Major restrictions on availability/cost, 5 to 6 months per year
4. Number of locally owned, independent, fleet trucking firms
- a. ≥ 6 trucking firms operating on major transport routes
 - b. 4 to 5 trucking firms operating on major transport routes
 - c. 2 to 3 trucking firms operating on major transport routes
 - d. ≤ 1 trucking firm operating on major transport routes
5. Domestic truck flatbed transport costs, long haul, paved road
- a. Transport cost $< .25$ USD/MT/Km
 - b. Transport cost $\geq .25$ USD but $< .50$ USD/MT/Km
 - c. Transport cost $\geq .50$ USD but $< .75$ USD/MT/Km
 - d. Transport cost $\geq .75$ USD/MT/Km
6. Ship waiting time to dock
- a. < 12 mean hours
 - b. ≥ 12 but < 24 mean hours
 - c. ≥ 24 but < 36 mean hours
 - d. ≥ 36 mean hours
7. Port container handling (port or railroad)
- a. ≥ 11 units per hour
 - b. 8 to 10 units per hour
 - c. 5 to 7 units per hour
 - d. ≤ 4 units per hour
8. Percent of freight handled through port as containers (port or railroad)
- a. $\geq 50\%$
 - b. $\leq 50\%$ but $> 40\%$

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- c. $\leq 40\%$ but $> 30\%$
 - d. $\leq 30\%$
9. Land transportation (trucking), degree of regulation
- a. No controls
 - b. Modest or sporadic controls
 - c. Heavy controls
 - d. Strict controls
10. Ratio of primary and secondary roads to tertiary roads
- a. More than two units of tertiary roads for every one unit of principal and secondary roads ($> 2:1$)
 - b. Two or less units but more than one unit of tertiary roads for every unit of principal and secondary roads ($\leq 2:1$ but $> 1:1$)
 - c. One unit to one half of one unit of tertiary roads for every unit of principal and secondary roads ($\leq 1:1$ but $> .5:1$)
 - d. Less than one half of one unit of tertiary roads for every unit of principal and secondary roads ($< .5:1$)
11. Miscellaneous transport costs (port fees, dock fees, air cargo, others)
- a. No costs
 - b. Modest or sporadic costs having very limited effect on business bottom line
 - c. Heavy costs having significant effect on business bottom line
 - d. Major cost having extreme negative effect on business bottom line
12. Self-explanatory

VI. Physical Environment

1. Soils (percent of soil negatively affected by physical and/or chemical problems)
- a. Soil in major production regions free of all pH, toxic, drainage or other physical and/or chemical problems ($< 10\%$)
 - b. Modest or sporadic physical and/or chemical problems in major production areas ($\geq 10\%$ but $< 20\%$)
 - c. Heavy physical and/or chemical problems in major production areas ($\geq 20\%$ but $< 30\%$)

- d. Extreme physical and/or chemical problems in major production areas ($> 30\%$)
2. Water sources, volume
 - a. No limitations on water supplies from major sources throughout the year
 - b. Modest or sporadic limitations on water supplies from major sources during or between years
 - c. Heavy limitations on water supplies from major sources during or between years
 - d. Strict limitations on water supplies from major sources throughout the year
 3. Water quality
 - a. No limitations on water quality from major sources throughout the year ($EC \leq 0.7$ mmhos/cm)
 - b. Modest or sporadic limitations on water quality from major sources during or between years ($EC .07$ to 3.0 mmhos/cm)
 - c. Heavy limitations on water quality from major sources during or between years ($EC > 3.0$ to 6.0 mmhos/cm)
 - d. Extreme limitations on water quality from major sources throughout the year ($EC > 6.0$ mmhos/cm)
 4. Irrigation methods and technology (% of growers using)
 - a. Wide variety of improved irrigation methods and technology available and used ($> 30\%$)
 - b. Modest or sporadic use of improved irrigation methods and technology ($\leq 30\%$ but $> 20\%$)
 - c. Limited use of improved irrigation methods and technology ($\leq 20\%$ but $> 10\%$)
 - d. Extremely limited use of improved irrigation methods and technology ($< 10\%$)
 5. Wastewater limitations
 - a. Few or no costs associated with wastewater management
 - b. Modest or sporadic costs associated with wastewater management
 - c. Heavy costs associated with wastewater management
 - d. Extreme costs associated with wastewater management
 6. Air resource limitations
 - a. Few or no costs associated with air resource management

- b. Modest or sporadic costs associated with air resource management
- c. Heavy costs associated with air resource management
- d. Extreme costs associated with air resource management

7. Self-explanatory

Appendix C

MOCK ANALYSIS OF EIFAD DATA FROM LESOTHO

Efforts to identify new agribusiness development strategies in sub-Saharan Africa will need to focus on key elements analytically drawn from data provided in the EIFAD survey. Analyzing these data represents an opportunity for information and/or agribusiness planning specialists to examine and review current specific evidence concerning country comparative advantages in policy, infrastructure, labor, and in different commodity groups.

Beginning a strategic planning process will involve the critical assumption that a need exists to establish comparative data for discovering comparative advantage. Consequently, baseline comparisons of sub-Saharan African countries with producers from the European Community (EC), other producers such as Israel, Turkey, and North Africa, and perhaps U.S. producers, should be analyzed in such areas as

- Productivity (average yields per hectare);
- Gross value per hectare (possibly reflecting quality);
- Total cost per hectare (reflecting labor rates and other costs, as well as efficiencies of production); and
- Transportation cost per hectare to primary market.

Analyzing EIFAD data would provide some initial bases for identifying specific problem areas at country and regional levels and would help to focus on what intervention(s) could possibly alleviate such problems.

EIFAD database development would provide TR with an ability to produce comparative costs and price analyses by using software applications already in use, such as Lotus 1-2-3 and dBase III. Comparison data that could be generated from an EIFAD database are illustrated in Figures C-1 through C-8 at the end of this appendix. The sample survey data form for Lesotho appears after the figures.

In the case of crop value per hectare, for example, one could compare data from two countries with similar conditions and find that values per hectare for the same crop vary greatly, as do exports for the same crops.

One assumption that could be made is that subsidies in one country could be skewing crop values. If export trade is also being restricting in view of subsidies, TR and mission planners will not only quickly recognize that some policy change should be considered, they will also have some evidence to share with host government officials to support policy change. Because it is intended that the host government be involve in the EIFAD data collection process, some resistance to policy change will be reduced.

An earlier version of the EIFAD survey was tested in Lesotho. A number of changes have since been made to the survey design as a result of this test. However, for purposes of illustration, the following represents a "mock analysis" from this test, providing specific examples of what can be drawn from such data.

General Background

This section provides a country overview that can be used to develop a general impression of the economic "health" of a country, compared to others. These data can also be used in a time series analysis as part of an ongoing monitoring activity (for example, to what can a positive or negative in per capita income be correlated).

In Lesotho, per capita income is higher than average for sub-Saharan Africa. Gross National Product (GNP) growth currently is equal to population growth, a more positive situation than in many other African economies. A suspended constitutional monarchy could be interpreted by prospective foreign investors as something to be concerned about, raising questions of political stability.

The population growth rate is below average for sub-Saharan Africa. More detailed population data would be helpful, especially levels of education, literacy, and unemployment rates. (These have been incorporated into a more recent survey format.) These could affect an analysis of current and projected labor and productivity rates. Other specific data on rural versus urban populations and on the number or percentage of labor force working in South Africa would also be helpful from a more detailed study or existing database.

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Twenty-eight percent of arable land is currently under cultivation. Less than 1 percent is under irrigation. These data imply that Lesotho has arable land available and that not much agricultural production is irrigated, possibly because of absences of irrigation systems, as opposed to lack of water. This also could account for the low degree of product diversity and emphasis on livestock and livestock products as primary agricultural exports. The same involvement in the development of irrigation systems could be a possible intervention.

Agricultural GNP appears to be below average for sub-Saharan Africa, possibly because of the strength of the services sector. It is suggested that the significance of the service and other sectors viz labor should be added. (This appears in a more recent version of the survey form.)

A 36 percent agricultural export income suggests opportunities might exist to tap into current export markets with nontraditional products. (Knowledge of percentages of market share should be included.)

Although information contained in this section appear to be basic, it is nonetheless relevant in presenting an overall orientation to a country's economic health over time and in comparing it to other client countries.

Business Environment

In this section, relative indicators are ranked as "A" for the most favorable and "D" as the least favorable for the choices provided.

In general, aside from a lack of labor data at the time of this test, Lesotho appears to have a somewhat favorable business environment. No major government interference seems to exist in the private sector, parastatals do not appear to pose a great threat in agribusiness (less than 20 percent), and no sector is government-protected. Hard currency is easily accessible and, with minor regulatory snags, is transferable. Land and other natural resources are obtainable. Corporate tax rates are equal to or below the norm for sub-Saharan Africa (however, clarification is needed on turnover tax provisions) and, in real terms, bank lending rates are less damaging than in many other sub-Saharan African countries.

Agreements with lending agencies are positive selling points to prospective foreign investors and locals seeking project/equipment financing. Some memberships (for example, LOME) translate to preferential market access—a strong selling point for prospective investors.

However, investment incentives could be improved. Specific fiscal incentives, such as permits and holidays, are not as competitive as in other countries, and project approvals require too much time to process (120 days compared to much less time in other countries; Angola, for example, requires 30 days). Businesses experience long delays and expenses in obtaining required permits. No fiscal incentives appear to be in place for encouraging development of export trade. Bank rates on deposits discourage in-country savings.

Outputs

With the exception of wool, agriculture is anchored in the informal sector. South Africa represents the largest market. Little contact occurs between producers and their formal markets, as wool is sold and exported through a government marketing board. Further data are required to determine the extent to which the marketing board restricts private transactions or whether it has a monopoly on wool exports.

However, asparagus is marketed and sold to the EC through private brokers. For Lesotho, the asparagus market possibly is representative of new and emerging export crops and could open possibilities for development of other high-value crops, thus expanding a potential for capturing other EC market shares. Asparagus production also demonstrates Lesotho's ability to compete in an attractive specialty crops market, as well as in using other marketing channels besides traditional government marketing boards. According to EIFAD data, production of asparagus that is exported is at 75 percent capacity, indicating an opportunity to expand its current market and/or serve other markets. In addition to value and volume, it is suggested that actual prices be included. (This has been added to the more recent version of the survey.)

Time series data will help to reconstruct baselines so that annual updates will show change and/or trends. Such change could be correlated to

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interventions, such as policy change, production/marketing assistance, and so forth. However, it is probably unrealistic to expect to collect data for a 5-year period. (Two years is a more reasonable time period and is reflected in the more recent survey form.)

Inputs

Cooperatives appear to have significant control of inputs in Lesotho. Are these monopolistic, or can anyone import fertilizer? Again, data for 5 years seems unrealistic. Volumes for each are missing and should be included. The section on storage has to be modified because 1 week is insufficient time to collect such data. (These changes have been made on a more recent survey form.)

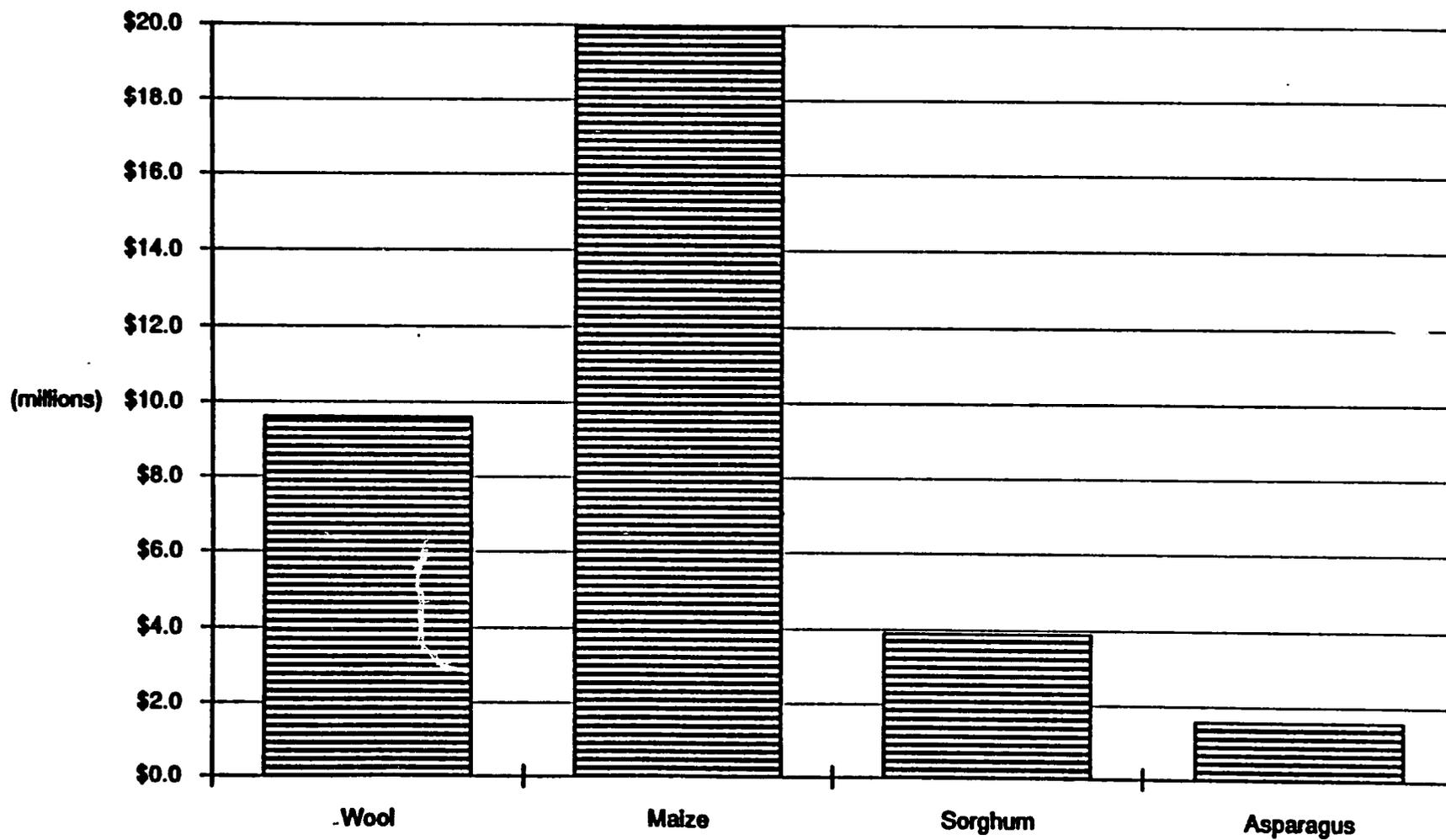
Although communications costs and logistics seem positive, energy costs and other inputs, such as urea, appear to be relatively high. These might be areas to explore when considering corrective or preventative interventions.

Grain processing facilities are available. It would be interesting to learn of the percentage utilization.

Transportation and Physical Environment

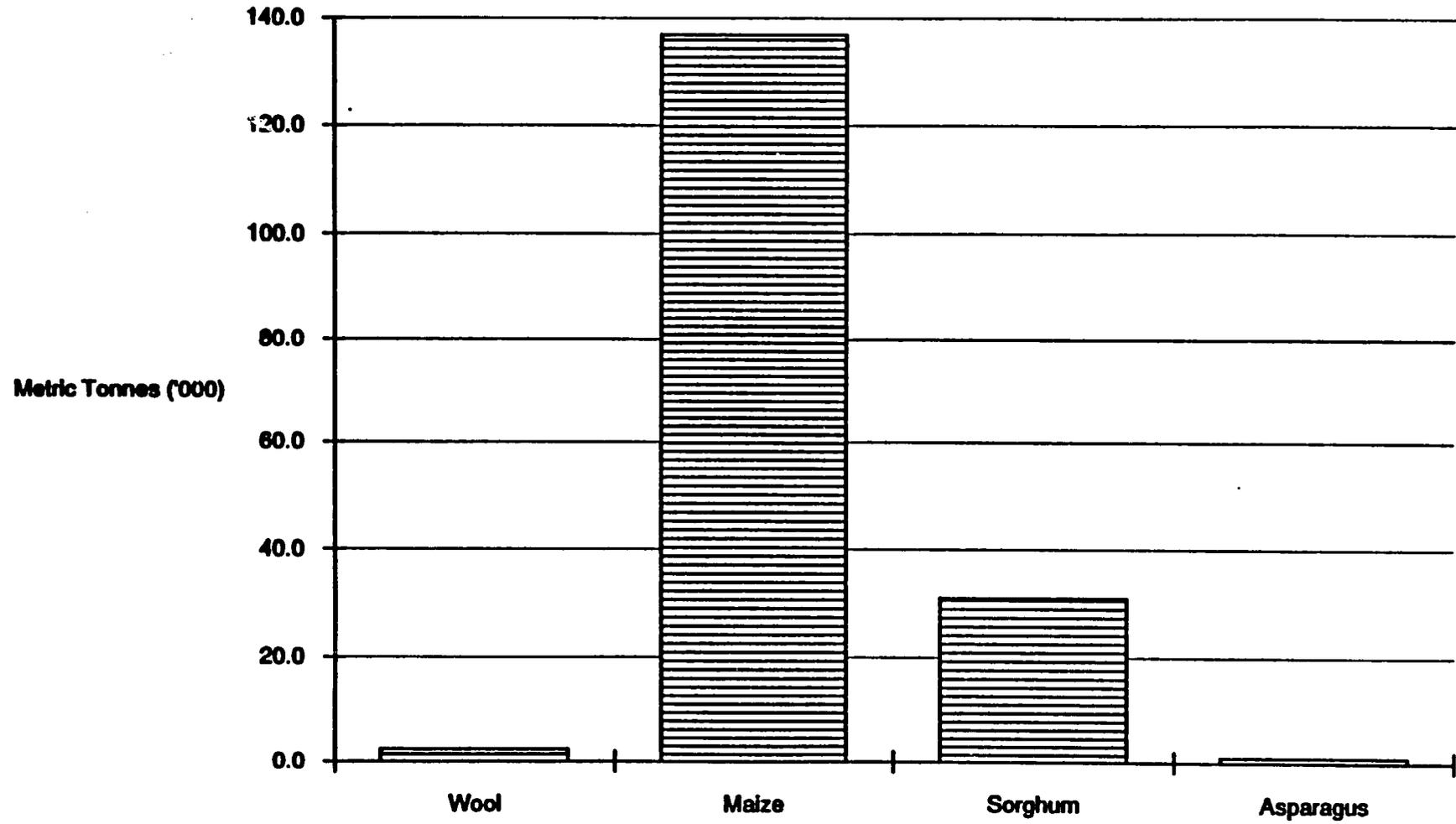
These data can provide the planner with other transportation and infrastructural indicators, such as handling efficiencies and costs. Out of 10 indicators, Lesotho appears to have some infrastructural disadvantages that could be addressed by some future intervention, such as developing better container facilities. Improvements in irrigation has been mentioned in an earlier section.

Figure C-1. 1988 USD Value of Gross Output—Lesotho



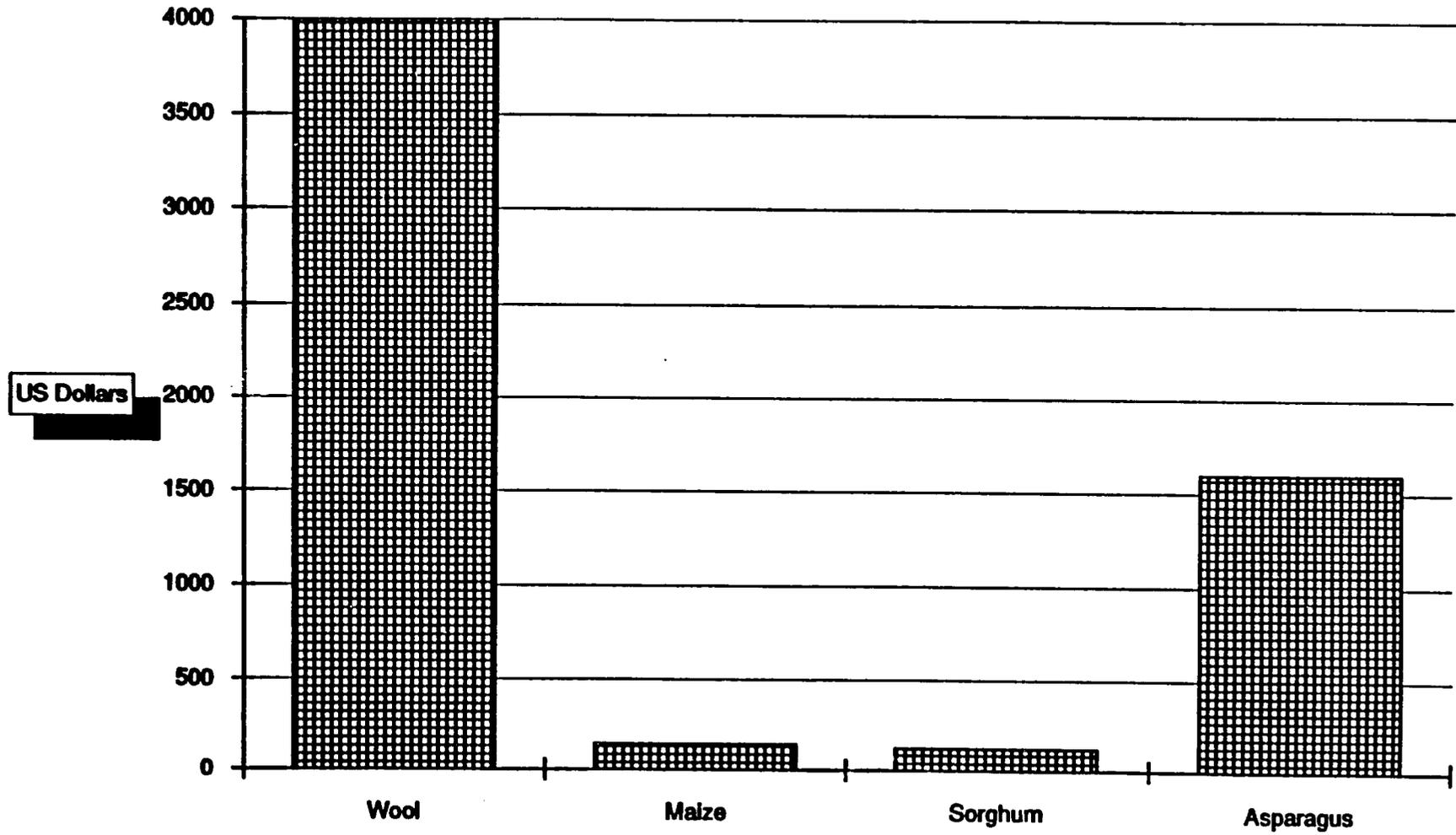
54

Figure C-2. 1988 Production, Gross Output—Lesotho



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Figure C-3. 1988 Values/Metric Tonne—Lesotho



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Figure C-4. 1988 Mean Yield per Hectare—Lesotho

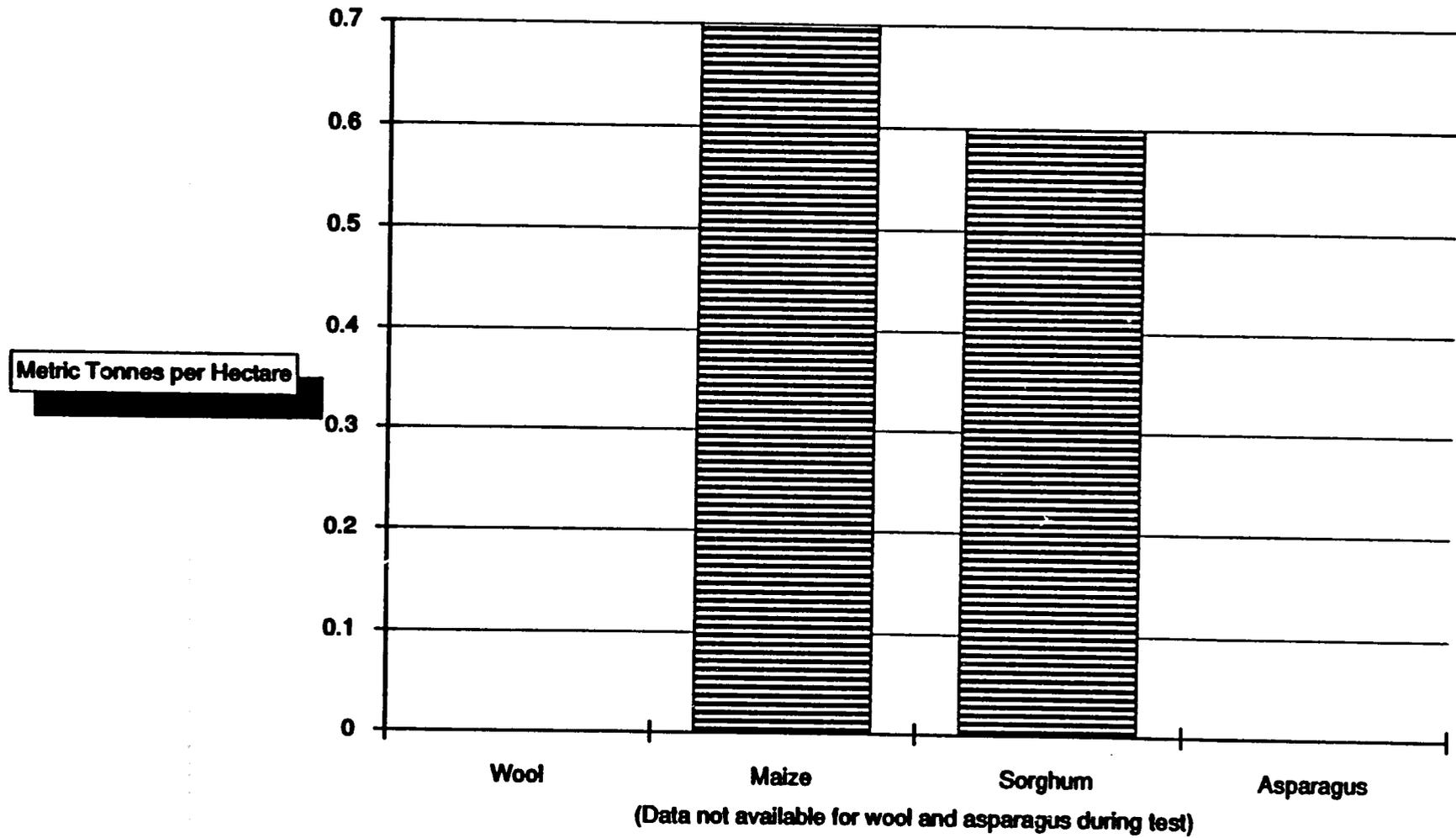
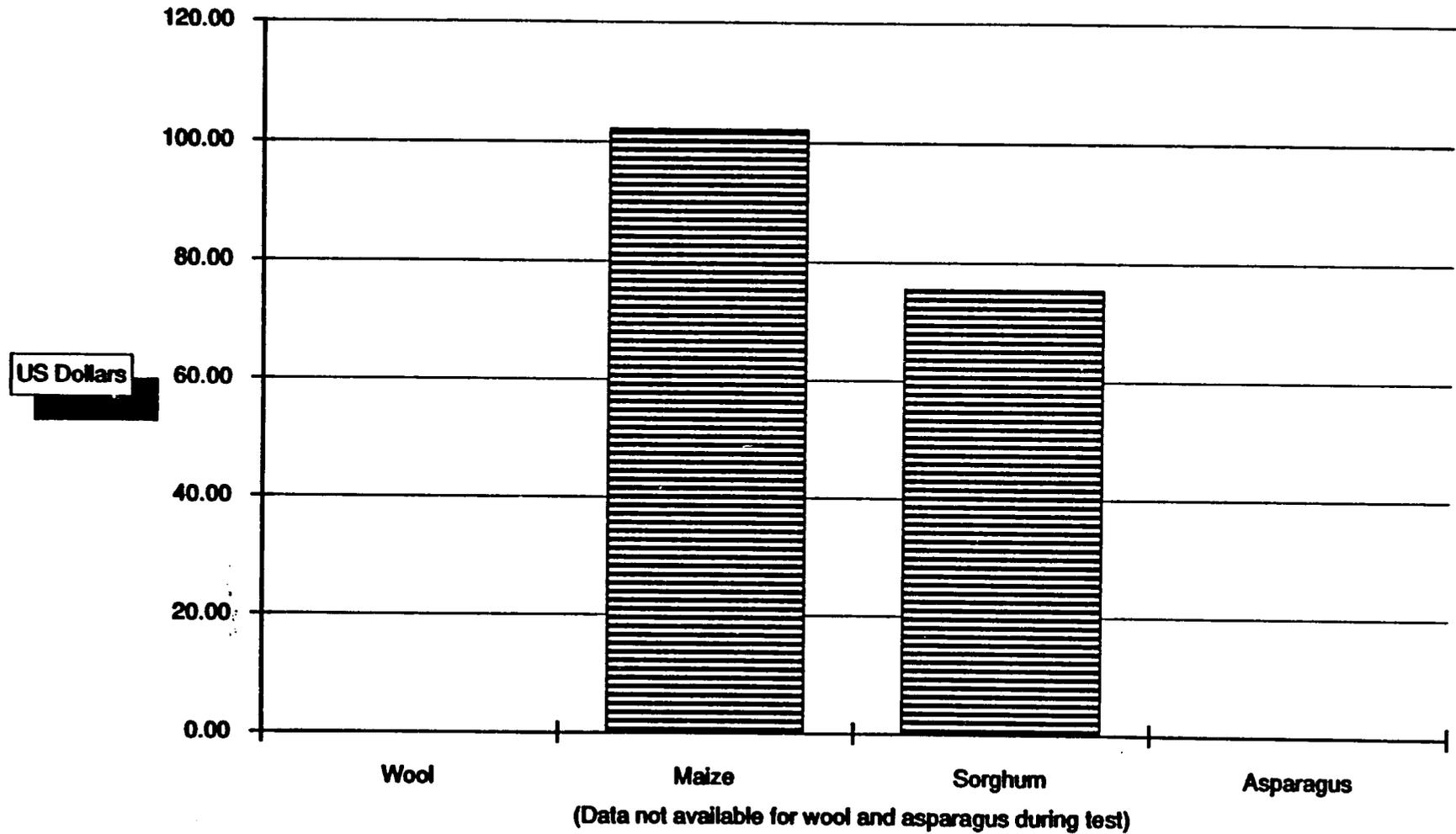
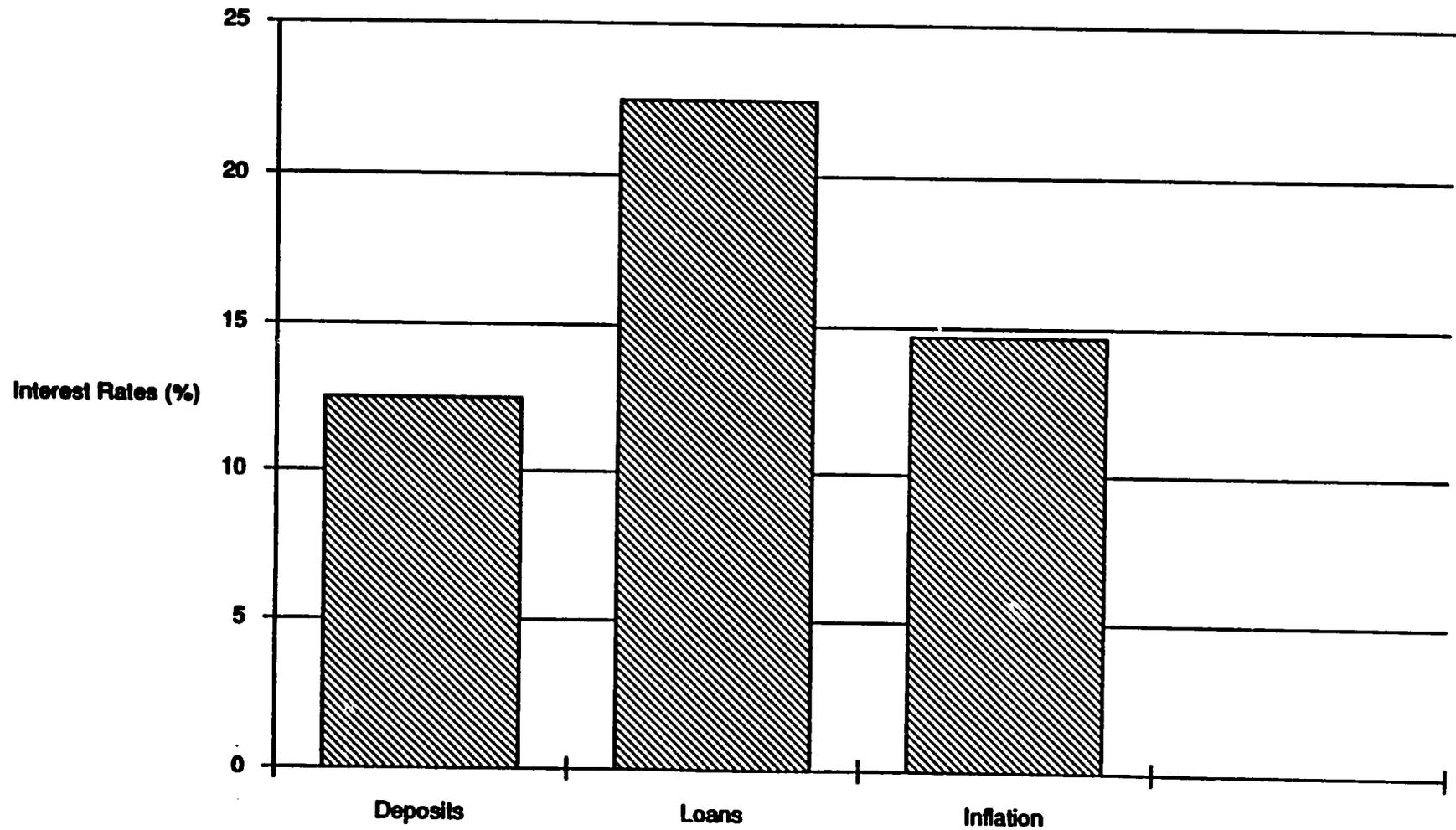


Figure C-5. 1988 USD Value per Hectare—Lesotho



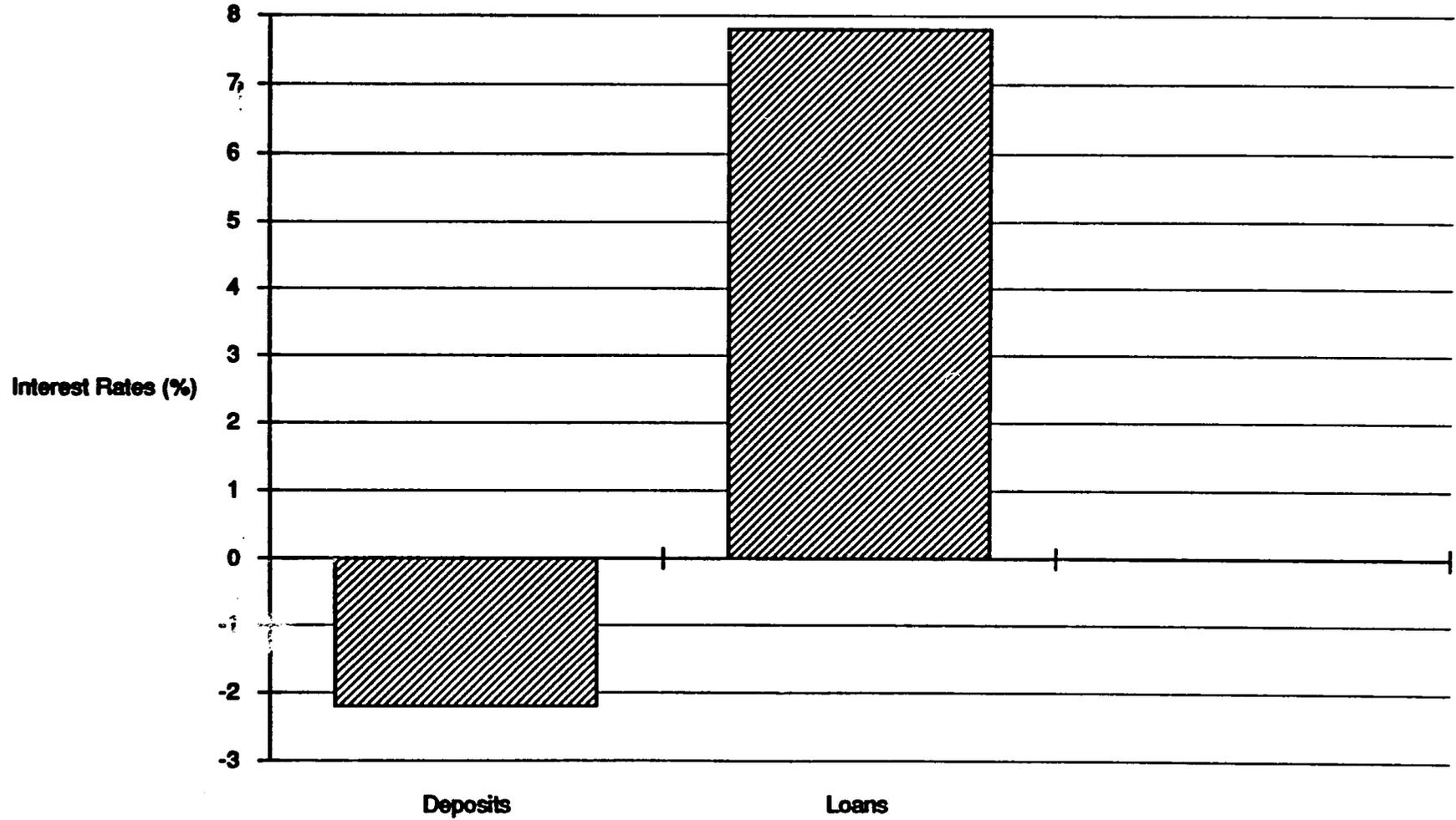
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Figure C-6. Commercial Bank Interest Rates in Lesotho Before Inflation



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Figure C-7. Commercial Bank Interest Rates in Lesotho (in Real Terms)



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**Figure C-8 Comparison of Investment Incentives from Six Countries in Sub-Saharan Africa
(sample of comparative data)**

	Cote d'Ivoire	The Gambia	Ghana	Lesotho	Nigeria	Senegal
Corporate Tax Rate	NA	50%	45%	35%	40%	NA
Customs Duties Waiver	100% for start-up 75-25% last 3 years of approval period	Drawback in the form of a Tax Certificate	During start-up phase	NA	Drawback	100% for 2 years, then unlimited export drawback
Foreign Ownership Allowed	Yes	Yes	100%	Yes	100%	100%
Repatriation of Imported Capital	Yes	Yes	Yes	Yes	Yes	Yes
Tax Holiday	Yes	Yes	Yes	Yes	Yes	Yes
Duration	7-15 years	5 years	5 years	10 years	5-7 years	3-5 years
Certification Required	Yes	Yes	Yes	Yes	Yes	Yes

ECONOMIC INDICATORS FOR AGRI-BUSINESS DEVELOPMENT

I. GENERAL BACKGROUND

ACTUAL

- Country	Lesotho
- Capita Income	677 USD
- GNP Growth	2.6 %
- Official Exchange Rate	2.5 = 1 USD
- Official Languages	English, Sesotho
- Political System	Constitutional Monarchy, suspended
- Population	1.6 MN
- Population Growth, %/yr	2.6 %
- Education, years compulsory	None
- Health, life expectancy, years	59
- Religions	Roman Catholic, Others
- Work Force, Sectoral %	Agr. 31%, Services 45%, Ind. 12%, Gov. 12%
- Natural Resources	Water, Agriculture, Grazing
- Agr/Hand area, HA	1,067,000
- Area under cultivation, HA	301,000
- Area under irrigation, HA	≈ 10,000 ?
- OPIC, existing agreement	yes
- IFC, existing agreement	yes
- EX/IM Bank, existing agreement	yes
- Agriculture as percent of total GNP	11.2 %
- Percent of export income generated by agrl-products	36 %
- Membership in International Organizations	LOME, GATT, IMF, SACU
- Historical Development	UK Protection until 1964 Independence

I. BUSINESS ENVIRONMENT

ACTUAL

RELATIVE

	ACTUAL	RELATIVE			
		A	B	C	D
- Government support of free enterprise, Y/N	yes	-	✓	-	-
- Degree of agri-business capital concentration, High/Low	high	-	-	✓	-
- Degree of agri-business product diversity, High/Low	low	-	-	-	✓
- Inflation (3 year mean), %	14.7	-	✓	-	-
- Bank interest rates on deposits, %	12.5	-	-	-	✓
- Bank interest rates on commercial loans, %	22.5	-	-	✓	-
- Hard currency bank accounts available, Y/N	yes	✓	-	-	-
- Currency exchange regulations, Y/N	yes	-	✓	-	-
- External debt, USD	5	✓	-	-	-
- International banks & CPA firms operating in country, #	5	-	-	-	-
- Remittance & repatriation of profits from domestic & foreign sales, Y/N	yes	-	✓	-	-
- Ownership of real estate & property, legal status, Y/N	yes	-	✓	-	-
- Ability to obtain clear title to real estate	yes	-	-	✓	-
- Foreign national travel & resident status, days to process visa	10	-	✓	-	-
- Permits required for investment, operation, transport, export, etc., Y/N	yes	-	-	✓	-
- Length of time required for permitting process, days	120	-	-	-	✓
- Corporate income plus turnover tax rate, %	35/15	-	✓	-	-
- Tax holiday, yrs.	10	-	✓	-	-
- Tax credit on exports, %	No	-	-	-	✓
- Investment incentives, Y/N	yes	-	-	✓	-
- Investment disincentives, Y/N	yes	-	✓	-	-
- Percent of agri-business GDP generated by parastatal firms	(Est) 220%	✓	-	-	-
- Investment areas off limits to foreign or domestic persons/corporations, Y/N	No	✓	-	-	-
- History of expropriation and nationalisation of firms, Y/N	No	✓	-	-	-

ECONOMIC INDICATORS FOR AGRI-BUSINESS DEVELOPMENT (Lesotho)

III. OUTPUTS

Leading Products of the Formal and Informal Agri-Business Sector

- Production, gross output (MT)

Product	Year 89	Year 88	Year 87	Year 86	Year 85
Wood		2402			
Maize		137,000			
Sorghum		31,000			
Asparagus		998			
Bean ()		9,700			
- Value, of gross output, (USD)					
Wood		9.6 MN			
Maize		2.0 MN			
Sorghum		3.9 MN			
Asparagus		1.6 MN			
Bean					
- Yield, mean					
Wood		6.95 Kg			
Maize		.7 MT/HA			
Sorghum		.6 MT/HA			
Asparagus					
Bean		.25 MT/HA			
- Production sector % formal/% informal					
Wood		For. 90%			
Maize		Infor. 100%			
Sorghum		Infor. 100%			
Asparagus		For. 100%			
Bean		Infor. 100%			
- Packing and processing capacity					
Asparagus		1500 MT			
- Packing and processing, % utilization					
Asparagus		75%			
- Primary market location					
Wood		RSA			
Maize		Domestic			
Sorghum		Domestic			
Asparagus		EC			
Bean		Domestic			
- Market channel & % volume of channel (Gov. boards, coops, assoc., brokers, informal)					
Wood		Gov. Bd.			
Maize		Informal			
Sorghum		Informal			
Asparagus		Brokers			
Bean		Informal			
- Trade barriers (export tax, tariffs, quotas, others) into primary markets					
Wood		None			
Maize		None			
Sorghum		None			
Asparagus		None			
Bean		None			

- Comments:

- Maize, Sorghum & Bean (white) produced and used on farm
- Less than 5% of production enters formal market

ECONOMIC INDICATORS FOR AGRI-BUSINESS DEVELOPMENT

(Lesotho)

IV. INPUTS

Leading Inputs Used in the Formal and Informal Agri-business Sector

- Value, of gross inputs

Retail Value @ Lesotho
Crop

- Inputs used in formal/informal sector, as %

- Input source (local or foreign)

- Commercial storage, public and private

Bulk MT

Bulk % utilization

Cold MT

Cold % utilization

Frozen MT

Frozen % utilization

- Market channels (gov. boards, coops, associations, traders, informal) & % volume of channel

- Trade barriers on inputs (tariffs, quotas, others)

Product	Year 89	Year 88	Year 87	Year 86	Year 85
Fertilizer		6.35 MN			
Seed		3.19 MN			
Animal Feed		2.31 MN			
Insecticides		0.48 MN			
Fertilizer		For. 100%			
Seed		For. 100%			
An. Feed		For. 100%			
Insecticides		For. 100%			
Fertilizer		RSA			
Seed		RSA			
An. Feed		RSA			
Insect.		RSA			
Grain		31,700			
Grain		90%			
		NA			
		NA			
Veg.		250 MT			
Veg.		20%			
Fert.		Coop 100%			
Seed		Coop 100%			
An. Feed		Coop 100%			
Insect.		Coop 100%			
Fert.		NONE			
Seed		NONE			
An. Feed		NONE			
Insect.		NONE			

Labor	USD/Day	% Benefits	Employer Taxes, %
Unskilled	4.8	10%	—
Skilled	6.5	10%	—
Managers	48.0	10%	—

- Energy

Electricity, USD/KWH

Natural, Bottle Gas, or coal, USD/Kg

Diesel, USD/LT

Fuel Oil #6 USD/LT

- Communications

Phone/Fax line fee, USD/YR

Days from order to installation

- Urea, USD/MT

- Toyota Pickup (1/2 ton 2x4), USD

- Packaging, number of box manufacturing firms operating

- Grain drying, cleaning, and milling facilities, number of firms operating

- Agriculture as % of total government spending

ACTUAL

RELATIVE

	A	B	C	D
.15			✓	
.67			✓	
.35		✓		
NA				
180	✓			
7	✓			
30.56				✓
12,000				✓
0		✗		✓
2		✓		
8.3%		✓		

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ECONOMIC INDICATORS FOR AGRI-BUSINESS DEVELOPMENT

(Lesotho)

V. TRANSPORTATION

International	Cost, USD/MT (prim. port to prim. market)	Capacity MT/WK	Utilization %	Frequency departures/ week
Land (Dry Box)				
Land (reefer)				
Air				
Ocean (40 ft. container)				
Ocean (40 ft. reefer)				

- Truck type generally available
- Truck availability, months of short supply
- Number of locally owned independent fleet trucking firms
- Domestic truck transport costs, long haul, paved road, > 100 Km, USD/MT/KM
- Ship waiting time to dock, mean hrs.
- Port container handling, units/hr (port or railroad)
- Percent of freight handled through post as containers (port or railroad)
- Land transportation, (trucking) degree regulated
- Ratio of primary & secondary roads to tertiary roads
- Miscellaneous transport costs (port fees, dock fees, air cargo, others)
- Transport Comments (Name of Airlines, Shipping & Trucking firms servicing country)

Airport Handling Fee, Flat Rate 640/USD Shipment

ACTUAL	RELATIVE			
	A	B	C	E
	—	✓	—	✓
	—	✓	✓	—
<i>.33</i>	—	✓	—	—
<i>NA</i>	—	—	—	—
<i>≈ 6</i>	—	—	✓	—
<i>< 20%</i>	—	—	—	✓
<i>Modest</i>	—	✓	—	—
<i>1.3:1.4</i>	—	✓	—	—
	—	✓	—	—

VI PHYSICAL ENVIRONMENT

- Soils
- Water sources, volume
- Water quality
- Irrigation methods
- Wastewater limitations
- Air resource limitations
- Sample location for meteorological data

MUR

✓	—	—	✓
✓	—	—	—
✓	—	—	✓
✓	—	—	—

- Mean monthly high temp., °C
- Mean monthly low temp., °C
- Hours below 7° C
- Mean rainfall, mm
- Last years rainfall, (yr. _____)
- Physical environment comments

	J	F	M	A	M	J	J	A	S	O	N	D
	<i>116</i>	<i>90</i>	<i>93</i>	<i>89</i>	<i>19</i>	<i>14</i>	<i>14</i>	<i>22</i>	<i>46</i>	<i>70</i>	<i>95</i>	<i>96</i>

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Appendix D

DRAFT CRITIQUE OF 'STRATEGIC FRAMEWORK FOR PROMOTING AGRICULTURAL MARKETING AND AGRIBUSINESS IN AFRICA'

"Strategic Framework for Promoting Agricultural Marketing and Agribusiness in Africa" (hereinafter referred to as Strategic Framework) is an innovative effort that represents a positive approach to introducing fundamental agribusiness issues. Specific issues will be raised and discussed at length in a concept paper currently being written. In the interim, the consultant team suggests the following points when considering modifications to the document.

General

The review team concurs in general with the approach adopted by the Strategic Framework. We agree especially with some key features of the framework that represent substantial improvements over previous efforts. Among these features we can cite the following:

- The view of the marketing system as a dynamic, evolving set of physical, social, and economic relationships
- The joint treatment of agribusiness as an integral part of the overall agricultural marketing system, rather than as a separate sector
- The identification of policies and regulations at the national and sectoral levels, as the principal factor in the stagnation and deterioration of the agricultural sector in African countries
- The attention directed to the false dichotomies between cash crops and food crops, exports and food self-sufficiency, private markets and public interests, that have influenced the thinking of national government and donors in the past two decades
- The negative effects on the welfare of producers and consumers, foreign exchange earnings, and public treasure resulting from the establishment of parastatal enterprises to manage the marketing of export and domestic crops

- The emphasis in government policies, particularly administrative and pricing controls, as high-priority areas where changes could bring about significant improvements fairly rapidly
- The importance of sound macroeconomic policies to encourage indigenous and foreign entrepreneurs to improve the production and marketing of agricultural products. Among such macro policies, we concur that the most critical are those affecting foreign exchange controls, tariffs and administrative barriers to trade, taxation, and the rate of interest.

While the team recognizes that the approach proposed by the document is innovative and progressive in many respects, it also appears to be timid in the areas highlighted in the following discussion. If it can be assumed that formal and informal agribusiness systems exist at varying levels, then strengthening essential components of these systems in response to market demands now and in the future will help speed development.

The team suggests that Strategic Framework needs to achieve greater balance in its presentation of agribusiness (as opposed to agribusinesses) and agricultural marketing, as the document places much greater emphasis on the latter.

Independently, Appendix A appears as a stronger document partly because of its greater reliance on more technical and illustrative components, and partly because of its greater focus. Appendix B was found to be an interesting expanded theoretical description of the "five stages of development," but was also perceived to be too academic for practical application in the field.

Objectives and Benchmarks

Among the performance benchmarks of the monitoring and evaluation process, Strategic Framework anticipates "reduction in marketing costs" and "decrease in consumer prices." These benchmarks should be reconsidered because neither is likely to be realized, especially if viewed in the context described in this section.

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Some confusion arises regarding a "reduction in marketing costs" as a benchmark indicator of progress in agricultural marketing. Other factors being equal, reducing the cost of performing a given function is considered an improvement in efficiency. However, as the agricultural marketing system evolves, the level of specialization among producers, transporters, traders, processors, distributors and consumers increases, causing marketing services to occupy a larger share of consumer expenditure. In an evolving economy, both effects—increased specialization and higher efficiency—occur simultaneously; the general result is increased marketing costs, both in absolute terms and in percent of the consumer price. Higher marketing margins between producers and consumers can thus be viewed as the welcome result of increased specialization, rather than as a drop in marketing efficiency. It would appear that total marketing costs alone, either in absolute value terms or as a percent of consumer price, are a poor performance indicator for the agricultural marketing system. The Strategic Framework itself points out that "one of the most important functions which an agricultural system performs is to add value to agricultural commodities." The opposite effects of increasing value and raising marketing efficiency create this apparent inconsistency in interpreting changes in marketing costs.

Similar reservations are in order with respect to a "decrease in consumer prices" as a performance benchmark. In an advanced marketing system, final products reaching consumers have incorporated a larger content of services (processing, storage, transport, grading, and packaging) than in a less developed system. These built-in, value-added services lead to higher prices per physical unit of original product. Higher consumer prices per se (in real terms) cannot then be construed as indicative of a drop in efficiency. They can as well be interpreted as increments in value added.

The remaining objective of increasing market efficiency for agricultural commodities is a better statement of purpose, though it could also be interpreted too literally and lead to counter-productive recommendations. For example, a profit-maximizing enterprise does not necessarily minimize costs, or maximize output per unit of input.

Purpose

The team recommends that AFR/TR/ANR develop a more inclusive and definitive statement of purpose, such as

to develop means/strategies to more effectively address short-, near-, and long-term agribusiness development issues defined on a country-by-country basis in sub-Saharan Africa.

Agribusiness development issues, strategically addressed, include

- increasing profitability (expanding the tax base)
- achieving greater efficiency in accessing markets for raw and processed products—developing/refining/ accessing local, regional, and international market systems
- creating more enabling regulatory environments, reducing and eliminating disincentives to produce and sell
- encouraging and promoting foreign and domestic investment and joint ventures
- privatizing SOEs (state-owned enterprises or parastatals) to allow for greater and unrestricted competition
- infrastructural improvements funded by public and private entities
- overcoming financial constraints
- overcoming technical deficiencies
- discovering country- and product-specific market niches.

Definition

There appears to be an inconsistency in the definition of agribusiness. Again, Strategic Framework refers to examples of agribusinesses, as opposed to a more general discussion of agribusiness, and encompasses aspects of agricultural marketing beyond the confines of agribusiness development. Most agricultural production for domestic consumption passes through informal markets maintained by small farmers, traders, and transporters rather than through formal agribusiness enterprises. It is nonetheless agribusiness.

The team suggests that a more congruous definition of agribusiness as a systemic process is warranted, no matter which market is being addressed. The team suggests the following definition:

Agribusiness relates to any agricultural product that is grown and sold with the intention of realizing a profit, and includes any process which may occur between the decision to produce until it is sold. Agribusiness encompasses the management of finance, market information, production know-how and resources, and market access.

Dynamic System

The view of agricultural marketing as a dynamic system that evolves over time is highly commended. The traditional way of looking at marketing has been merely a description of what is going on, accompanied by plausible explanations of why it functions the way it does. By emphasizing the changing nature of the system, Strategic Framework directs attention towards what is currently taking place in the system, the driving forces generating those changes, how the system will look in the future, and how the Agency or government can speed up or alter the evolution of the marketing system.

Lack of Trade Emphasis

A recurrent concern is the document's relative lack of emphasis on trade as the core of marketing. While trade is obviously included in the general discussion on agricultural marketing, it should be brought out more clearly, in the section focusing on "critical elements."

The rationale for this can be seen in the following analogy: trade bears the same relation to the economy as the blood circulation system to the human body. It is not simply another system that can be improved independently of the rest, but rather the system that governs changes to any part of the body. If the circulatory system does not function properly, other parts of the body can atrophy.

Healthy, overall development cannot occur with a deficient trading system. The trading system carries not only nutrients (inputs) for the different parts, but serves as the communications link between one section and another as well.

Strategic Framework appears timid in stating the importance of the marketing and trading system in the process of economic development. Strategic Framework takes some giant leaps, as the reader is left with an impression of the system as mainly a one-way flow of functions occurring after production and before consumption. The team suggests that the system be viewed as a tool to increase production by allowing exchanges between producers and the rest of the world. If this is to be one of the primary objectives, it needs to be stated more precisely.

The team suggests that Strategic Framework recognize that

improvement in agricultural marketing and trading systems is not just a major objective of a development strategy, it is the *sine qua non* for being able to develop the rest of the economy.

Underlying Concepts and Focus on Regional and International Markets

The four underlying concepts discussed in the next section appear to focus more heavily on international than interregional or domestic markets.

Strategic Framework could further discuss some of the concepts described, as some serious questions arise in this section. The team suggests that greater consideration be given to the following:

- Which market(s) are being considered when "stages of market development" are discussed? It is suggested that the theoretical framework be de-emphasized to avoid the possibility that strategic planning will be delayed at the outset while the planners try to figure out their country's current stage of development.
- How does a policy environment affect "competitive markets" and vice versa?
- How is the "comparative advantage" of sub-Saharan Africa viewed in the context of intra-African markets?

- Does "adding value to commodities" always increase demand for those commodities, especially in increasingly competitive markets? If not, in what circumstances is this statement true?
- If demand and production increase, will prices increase?

Specialization and the Size of the Market

The importance of trade goes beyond the generation of foreign exchange. It has more to do with expanding the market and opening the possibility for specialization. African markets are not developing because they are not growing; because they are small and cannot grow, markets stagnate. Specialization is limited by the extent of the market.

The technical analysis in Appendix A of the Strategic Framework clearly states that, given the small size of African economies, exports should not be limited to the traditional European market, but should be encouraged to encompass promotion of regional marketing among African countries. This point has been neglected in the main body of the document. In support of pursuing regional markets, the team wishes to call attention to the common misconception that countries in Africa have little to profit from trading among each other because they produce basically the same products. Therefore, it is argued, the only trade that matters is that between each country and its traditional buyers in Europe. While trade with Europe is recognized as significant and worth pursuing, particularly for those in search of hard-currency clients, trading with neighboring countries appears to be neglected, frowned upon, or sometimes banned outright. It is too often forgotten that in Europe and North America a greater proportion of trade is carried out between neighbors than with distant partners.

The large volume of trade between Canada and the United States reflects the degree of specialization that has taken place between the two countries rather than any inherent inability of one country to produce a given product. The United States can produce nearly everything that is produced in Canada, but this fact does not prevent their being each other's best trade partners. Trade reflects the results of specialization as much as of differences in natural resource endowments.

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Trade Barriers

The importance of trade with Europe is not in question here: it is the major source of foreign exchange for most African countries. What is claimed here is that trade among African countries is an important source of growth that is being stifled. It is quite possible that even in the absence of trade barriers among African neighbors, the level of trade would be small. That may in fact happen because transport links and communications are often designed for external trade, not for internal movements or links with neighbors.

On the contrary, several countries have made deliberate efforts not to link their transport networks with those of other countries. The prevalence of smuggling across numerous national borders in Africa attests to pressure for trade that is frustrated by the presence of such borders. If indeed the potential trade among African countries is negligible, removing the barriers would not change much, and no country will be worse off. It would be inconsistent to argue in favor of maintaining the barriers and then that removing them would have no effect: if they are not needed, they should be removed. This should be explicitly stated in the document.

The formal infrastructure of export/import procedures that has been built up to handle trade with Europe does not at all suit the needs or conditions of cross-border trade. Requirements for foreign exchange through banking systems and export/import licensing systems are too cumbersome for the operators involved in cross-border trade.

Policy and Regulatory Constraints

Over the past decade, A.I.D., other development agencies, and African governments have acknowledged the need to examine the impacts of macroeconomic and agricultural policies in preventing development of agricultural and other sectors of the economy. While there is broad agreement in principle about the need for policy reform, and some progress has been made, much work remains to be done in the policy arena. Most of the progress has been made in the macroeconomic area, while the regulatory structure governing the trade of agricultural products remains basically unchanged in many countries. Much more could be accomplished from

further work by A.I.D. and African governments in reexamining the system of local, regional, and national administrative regulations that inhibit marketing of agricultural products across localities, regions, countries.

The technical appendix of Strategic Framework states this point succinctly:

"Having sound [macro] economic policies is not enough. . . . It is becoming clearer that more attention must be paid to the day-to-day administration of the rules and regulations which implement the policies before significant economic results will be achieved."

Among the typical regulations cited by the appendix: requirements that traders be licensed, the qualification and certifications required for licenses, high license fees that discourage indigenous traders, special permits needed for licensed traders to move certain quantities of commodities, and so on. It is unfortunate that the argument stated so strongly in the technical annex is not reflected in Strategic Framework.

One of the main reasons for creating and maintaining cross-border trade barriers is that without them it becomes impossible, or at least very difficult, for countries to enforce price-distorting policies. With open borders, those countries that allowed prices to become too distorted would quickly find the situation untenable. Distorted prices and subsidies are enforceable only if borders are closed to the movement of goods and currency is unconvertible. Even without foreign exchange and banking institutions, cross-border trade can and does take place profitably, as long as goods can be moved in both directions. Markets cannot grow because of barriers that hamper trade with other countries.

The following examples of administrative and regulatory constraints on cross-border trade demonstrate their significance:

Example I: Togo is fortunate to be able to produce more grain and tubers than it can consume. However, exports of grains and tubers to neighboring countries are not allowed by the government on the grounds of concern for the country's self-sufficiency in food.

Example II: Farmers in North Shaba can harvest maize in January, but cannot sell it or move it until June because the provincial government allows marketing only within the official marketing season (June to December). Meanwhile, Lubumbashi and other southern Shaba towns are being fed with imported maize from South Africa and Zambia.

Example III: Farmers in Zambia are not allowed to sell maize directly to consumers or to millers. They are legally required to surrender their entire production to the government through their local cooperative unions. Farmers and small traders have been shot by soldiers at the border to prevent them from taking maize and flour into Zaire, where they can get a price several times over that paid by the government in Zambia.

Example IV: A bush taxi driver in Kenya is sentenced to several months in jail when he is caught with bags of maize in the taxi's trunk, for it is against the law to move maize across districts. In Tanzania and Zambia, uniform official prices for maize across the country remove any incentive for people to engage in inter-regional trade. Governments thus become responsible for gathering, transporting, and distributing the entire crop in the nation.

Similar examples abound throughout Africa. The overall picture emerging is that of governments at local, regional, and national levels striving to forbid or severely restrict free flow of the most basic agricultural products. The wonder is not that agricultural marketing is deficient, but that it takes place at all, given the disincentives, obstacles, and basically negative approaches taken by governments towards trade.

The 1989 Private Sector Diagnostic Survey in Kenya conducted by MAPS highlights the importance of current regulations in stifling the entrepreneurial initiative of local businesses. It calls attention to the realities of export markets as well as the difficulties of entering and remaining in the export trade. Kenya is traditionally viewed as one of the most successful countries in Africa in encouraging the development of private enterprise in general and export industries in particular. The findings of the Kenya survey raise serious questions as to how favorable a business climate exists in other African countries.

Strategic Framework should include such illustrations so that Missions can better relate to specific agribusiness challenges presented in their countries.

Perceptions of Profitability

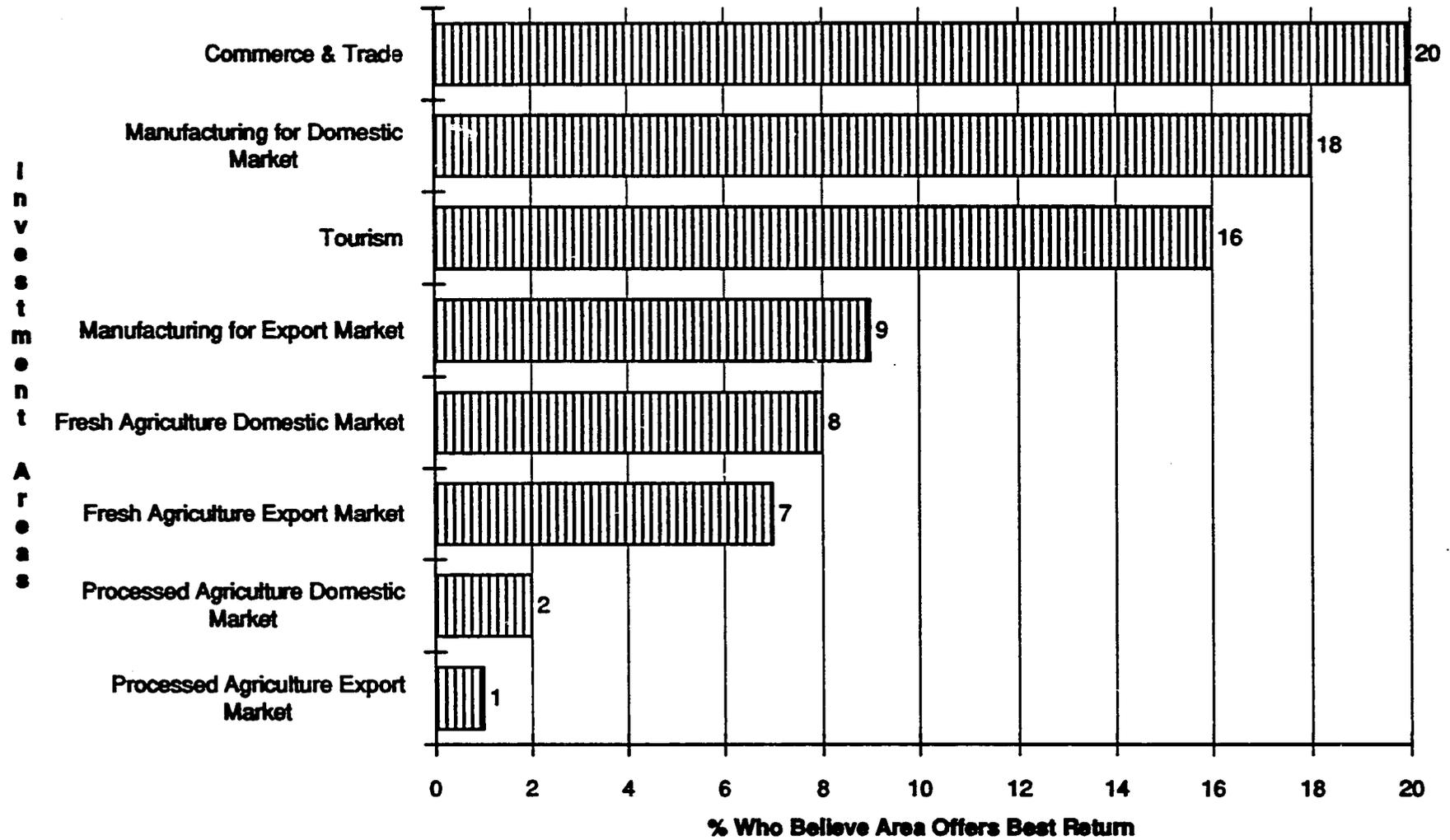
Another interesting finding of the Kenya Business Survey conducted by MAPS is shown in Figure D-1, which shows areas of activity that offer the best return. Investment in commerce and trade is viewed as offering the best potential return, followed by manufacturing for the domestic market, and tourism. Only one percent of respondents believed that processing agricultural products for export market was the best use of resources. Two percent thought that processing for the domestic market was a better alternative. Production of fresh agricultural products for the domestic market was ranked best by 8 percent of respondents, slightly more than the 7 percent that thought the export market was better.

The Kenya Business Survey sampled enterprises registered officially with the government as business concerns. The sample included a very small number of agribusinesses in the narrow sense of the word. It is possible that the low representation of agribusinesses in the sample reflects the poor profit expectations of the export-oriented agro-industries; then again, they may in fact reflect the real situation.

High profitability of commerce and trade activities is commonly reported throughout Africa. This is especially true of the established commercial establishments, who often enjoy exclusive licenses to operate in a given place or to sell particular products. Lack of competitive pressure is often the main reason for high profitability in a given commercial activity. Commerce and trade remain profitable because they are so highly regulated. Licenses and regulations tend to impede entry of new businesses, thus ensuring that the few businesses that qualify derive rents from their market power. In many countries, for example, import licenses are awarded to only one or two companies for each commodity, virtually ensuring near-monopoly profits for the privileged enterprises that obtain them.

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Figure D-1. Areas of Activity Believed To Offer Best Return



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The foregoing discussion on the Kenya Business Survey is included to corroborate three recurring themes that must be taken into account in implementing the Strategic Framework:

- Agribusiness exports to European markets are not necessarily the most profitable use of investment funds by local businesses, even in one of the most export-oriented countries in the continent;
- Commerce and trade are among the most profitable uses of investment; and
- Regulations restricting entry into commerce and trade and an overvalued currency contribute to virtually ensuring unwarranted profit levels by firms licensed to conduct foreign trade.

This discussion accords closely with observations by de Soto (*The Other Path*) regarding the role of laws and regulations on the activities of the informal sector in Latin America. One of his basic theses is that the body of regulations is the cumulative result of efforts by the established business community (formal sector) to use the legal system to shield itself from competition. While his original ideas developed from observations in Latin America, there is much in the African experience that lends itself to similar interpretations. (See, for example, Bates, *Markets and States in Tropical Africa*.) One telling point in this is the common opposition by the business community to removing regulations. After decades of operating in a highly regulated and protected environment, the prospect of competing openly with newcomers offers little attraction to established enterprises.

A.I.D. Priority Targets

A corollary to the foregoing observations has been targeting the development of small-scale businesses and microenterprises as a high-priority goal for USAID. A great many such enterprises are engaged in agricultural marketing and processing activities: improving their efficiency will contribute to raising the income of many operators and stimulate agricultural production. Official laws and regulations governing the entry and operation of businesses are among the most common and effective constraints on promoting small-scale enterprise development. Agricultural marketing and agribusiness development strategies need to identify how current legal and regulatory environments inhibit the exercise of local entrepreneurship.

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A similar analysis leads the Strategic Framework to recommend that A.I.D. Missions in sub-Saharan Africa should consider giving priority to the following:

- Supporting a policy and regulatory environment that encourages marketing agents, including farmers, to respond to market signals that reflect supply and demand conditions for different commodities;
- Supporting a policy environment that fosters private entrepreneurship and investment; and
- Encouraging governments to open markets to competition.

Marketing Infrastructure

Marketing infrastructure is another area that the Strategic Framework identifies as critical to improving agricultural systems. Unfortunately, the document provides few specifics as to methods for accomplishing such improvement. A.I.D. has shied away from projects to build physical marketing infrastructures in Africa following some unhappy experiences, such as the construction of livestock markets in West Africa.

The transport system in most African countries constitutes one of the main obstacles to integrating the countryside with urban centers and other regions into a national market. In several African countries A.I.D. has recently funded the rehabilitation and expansion of rural feeder road networks. Evaluations of the impact of these projects have been favorable even in very trying circumstances, such as those in Zaire. Nevertheless, the problems of ensuring the sustainability of road infrastructure projects in Africa tend to limit the extent to which rural road projects can be carried out.

Strategic Framework suggests that USAID Missions "support improvements to the transportation and communications infrastructure through the programming of local currencies," and encourage the "maintenance and rehabilitation of infrastructure . . . and improving rural road networks." We concur with the overall message conveyed in Strategic Framework in support of road rehabilitation and maintenance. However, given the high costs of new roads and other new transport infrastructure, the merits of any specific

effort in that regard require careful evaluation. In our view, much needs to be done to improve the openness of the markets before opening new roads can be economically justified.

Some obvious inefficiencies of the central markets for food products in the major African cities constitute a major source of intra-urban marketing costs, not to mention a menace to public health. Several empirical studies have found that marketing costs between the farmer and the city often amount to less than distribution costs from the wholesaler to the consumer within the city. Deficiencies in the urban transportation, communications, and information system are largely responsible for the high urban distribution costs.

There is a role for the private sector in improving agricultural marketing infrastructure. Governments can and do offer tax incentives for privately funded infrastructural development, accessible to the public even if user fees are required, such as for use of cold storage facilities. In The Gambia, for example, a tax incentive increases (doubles) the percentage allowable for depreciation on new infrastructure that can be used by the public.

Training

The third element of the Strategic Framework is increasing the knowledge, skills, and resources of marketing agents, especially agribusinesses: hence the strong emphasis on A.I.D. support for private and public training on technical, managerial, and analytical skills needed in the agricultural marketing system. Training always exerts a positive impact on participants. However, it is not obvious that shortcomings in management, technical, or financial skills constitute critical constraints to the improvement of agricultural marketing systems in Africa. Training can also be rather expensive in terms of funds, technical labor, and time. It is therefore recommended that training be kept equal to the benefits expected. One simple way of ensuring the cost-effectiveness of training is to require that beneficiaries, public or private, pay for a reasonable portion (for example, 25 percent or more) of the actual cost.

Targeting of Participants and Components of the System

A more concise definition of agribusiness will help to identify those who participate in the process (for example, growers, transporters, brokers, processors, and so forth). Considering and accepting a definition (such as the team's suggestion) will help to break down traditional biases that separate programs concerning agriculture from private sector initiatives. Eliminating such biases will enable planners to envision greater program consistency in targeting participants.

It will be difficult to measure the impact of agricultural marketing reforms and agribusiness promotion programs on all marketing participants. A crucial concern which must be addressed in designing a program or project is identifying anticipated winners and losers, especially if the interventions involve changing the current marketing system and the roles of participants. Strategic Framework mentions this need but provides little guidance on identifying these winners and losers *a priori*. Once they are identified, reform programs may need to be modified to alleviate the adverse impact on some of the participants.

It is important for Strategic Framework to acknowledge that the kinds of changes being advocated in the policy and regulatory structure to open the market to greater competition and participation by private concerns will favor some market participants more than others, and some of those participants might lose as a result. For example, removing restrictions on entry through licensing requirements will be favored by many small operators but will be opposed by the established businesses already enjoying the licenses. Reforms aimed at reducing or removing government subsidies on parastatals and urban consumers will likely benefit farmers, traders, and taxpayers, but will also be opposed by the employees of those parastatals and by urban constituencies. Strategic Framework could expand on the downside of the reforms being suggested so as to anticipate better the welfare implications and political opposition that will arise when governments attempt to implement such reforms.

Appendix E

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