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**A STRATEGIC FRAMEWORK
FOR PROMOTING
AGRICULTURAL MARKETING
AND
AGRIBUSINESS DEVELOPMENT
IN SUB-SAHARAN AFRICA**

**Agriculture and Natural Resources Division
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PREFACE

The Development Fund for Africa (DFA) has challenged A.I.D. to take a hard look at the effectiveness and impact of its development assistance programs in Africa and to make the adjustments needed to improve upon the record of the past.

The Africa Bureau Office of Technical Resources (AFR/TR) has been analyzing A.I.D.'s approach to the agricultural sector in light of the DFA and the recent experiences of Sub-Saharan African countries. In particular, some A.I.D. missions in Sub-Saharan Africa are either already supporting or planning to support agricultural marketing reforms and private sector development, especially agribusiness development.

Recognizing the importance of these efforts, AFR/TR has developed a concept paper or **STRATEGIC FRAMEWORK** in order to share information gained from our experiences and to support missions in their analysis of agricultural marketing systems.

The Strategic Framework includes an historical and theoretical analysis of agricultural marketing in Sub-Saharan Africa. Based on that analysis, this document identifies issues missions may want to consider if they are involved in agricultural marketing or agribusiness activities. While this paper provides a strategic framework for thinking about the role of private agribusinesses in marketing, AFR/TR will draft a supplementary concept paper that will analyze in more detail specific issues related to the development of agribusiness.

We would like to thank the many A.I.D. missions that provided comments on the draft Strategic Framework and express appreciation to our colleagues in AFR/DP, AFR/MDI and USDA for their suggestions during the AID/W review and approval process.

We trust that the Strategic Framework will provide ideas, information and suggestions that will assist missions that are initiating or involved in agricultural marketing activities. We will continue to provide analytical assistance to missions in Sub-Saharan Africa so that we can strengthen our efforts to improve and measure the performance of the agricultural sector.

Richard Cobb
Director
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Bureau for Africa
Agency for International Development

EXECUTIVE SUMMARY

Agriculture is the dominant sector in Sub-Saharan African economies and a potential catalyst for generating broad-based, sustainable economic growth. Achieving sustained increases in agricultural productivity requires attention to technical, environmental, and marketing issues.

Despite its relatively poor performance to date, Sub-Saharan Africa does have a comparative advantage in the production of certain commodities and the potential exists for the production of other high-value crops. While technical and environmental problems must continue to be addressed, the greatest cause of the poor performance of the agricultural sector has been the inefficiency of the marketing systems. Improving agricultural marketing systems can have a significant beneficial impact on national and household incomes, foreign exchange earnings, domestic consumption, and food security.

This Strategic Framework suggests methods to promote more efficient and more competitive agricultural marketing systems. The Strategic Framework reflects the targets and objectives of the Development Fund for Africa (DFA). Missions are encouraged to take a balanced, broad approach to market development with the purpose being to lower market costs, respond to market demands and increase the value-added to what is produced in the agricultural sector.

The Strategic Framework suggests that efforts to promote more efficient and competitive marketing systems include:

- * Policy and regulatory reform, to provide incentives for marketing activities and investments;
- * Infrastructural and institutional rehabilitation, maintenance and development, to enable marketing activities to take place and expand;
- * Strengthening market participant capacity, to improve technical, analytical and managerial skills required by both the public and private sectors.

Agricultural marketing is defined as a process by which inputs are delivered to farmers, output is collected from farmers, and commodities are transformed before being delivered to consumers. During the marketing process, value is added to agricultural commodities, especially by enterprises which transform produce. These enterprises, or agribusinesses, engage in many marketing activities including transportation, storage, packaging and handling, pricing, promotion and distribution.

Competitive agricultural marketing systems, involving private agribusinesses, have the potential to increase employment, productivity, and incomes in rural areas.

The Strategic Framework provides analysts with a conceptual model and indicators for the stages of development which characterize agricultural marketing systems. Missions are encouraged to incorporate marketing and agribusiness analyses within their agricultural sector assessments. The Strategic Framework provides guidance on the issues which deserve examination:

- * To what extent is agricultural marketing a constraint on broad-based, sustainable economic growth?
- * At what stage of development are the various commodity systems in the economy?
- * What would be the most appropriate activities to support in order to promote further development?

Given the wide range of agricultural commodities and marketing systems in Sub-Saharan Africa, Missions are encouraged to focus their efforts on alleviating the most critical constraints in the key commodity systems, while supporting the capacity of private agribusinesses to expand the scope of their activities.

Missions are also encouraged to strengthen their analytical capacity to monitor and evaluate the impact of market change and thereby strengthen their ability to help resolve new marketing problems that may arise. The Strategic Framework also provides illustrative indicators which may assist Missions in measuring impact.

Marketing projects or programs can make a significant contribution to A.I.D. Mission objectives in the agricultural sector as well as the broad objectives of the country development program. The selection and design of projects and programs to promote agricultural marketing and agribusiness development should be closely coordinated between the Missions, REDSO offices and relevant Africa Bureau and other A.I.D. offices in Washington, especially those offices which can provide analytical and technical assistance to Missions.

I. INTRODUCTION

A. Agriculture, Agricultural Marketing and Economic Development

The agricultural sector is the most significant sector in the economies of Sub-Saharan African nations. Its importance is reflected in the agricultural sector's share of Gross Domestic Product, employment, and foreign exchange earnings. For Sub-Saharan Africa, agriculture is the:

- * Largest employer of labor, with a range of between 65 and 80 percent of the labor force working on farms or in jobs that provide inputs for or utilize outputs from farms (i.e. agricultural services and agro-processing industries);
- * Major source of income and contributes a large share of Gross Domestic Product (GDP); (The value of on-farm production is estimated by the World Bank to be 42% of GDP in low-income countries and 27% in middle income countries. Agriculture's share of GDP increases to between 40 and 70 percent in most countries when agriculturally related services and manufacturing are included.)
- * Largest earner of foreign exchange, averaging over 50% for low and middle income countries (excluding Nigeria);
- * Greatest source of food needed to meet domestic demand; and,
- * Most important source of raw materials for the industrial (agro-processing) sector.

Moreover, rural families are potentially the largest domestic market for food, textiles and manufactured products made by processing agricultural commodities.

Given the critical role of agriculture in Sub-Saharan Africa and the important linkages between the agricultural and industrial sectors, economic growth can best be generated and sustained by improving the performance of the agricultural sector. Indeed, development specialists have long looked towards the agricultural sector to provide the surplus (output, labor and capital) necessary for investments in social overhead and industry.

As shown in Figure 1 (The Agriculture and Natural Resource Sector Objective Tree) on the following page, improving agricultural sector performance means increasing productivity. Sustainable increases in productivity can best be achieved by:

- * Greater utilization of high-yielding technologies;
- * Improved management of the natural resource environment;
- * More efficient marketing of agricultural commodities.

A.I.D. and the other bilateral and multilateral donors have devoted significant amounts of resources to support African government efforts in developing the agricultural sector. Hitherto, those efforts have tended to focus on increasing the production (supply) of agricultural commodities in two ways:

First, agricultural development specialists have worked with farmers to try to improve production on the farm. This has involved both efforts to improve existing systems of production (increased efficiency), and efforts to introduce better methods of production (increased effectiveness).

Second, agricultural development specialists have supported research efforts to develop better inputs (e.g. seeds) and technologies, and they have supported extension efforts to promulgate improved agricultural production technologies.

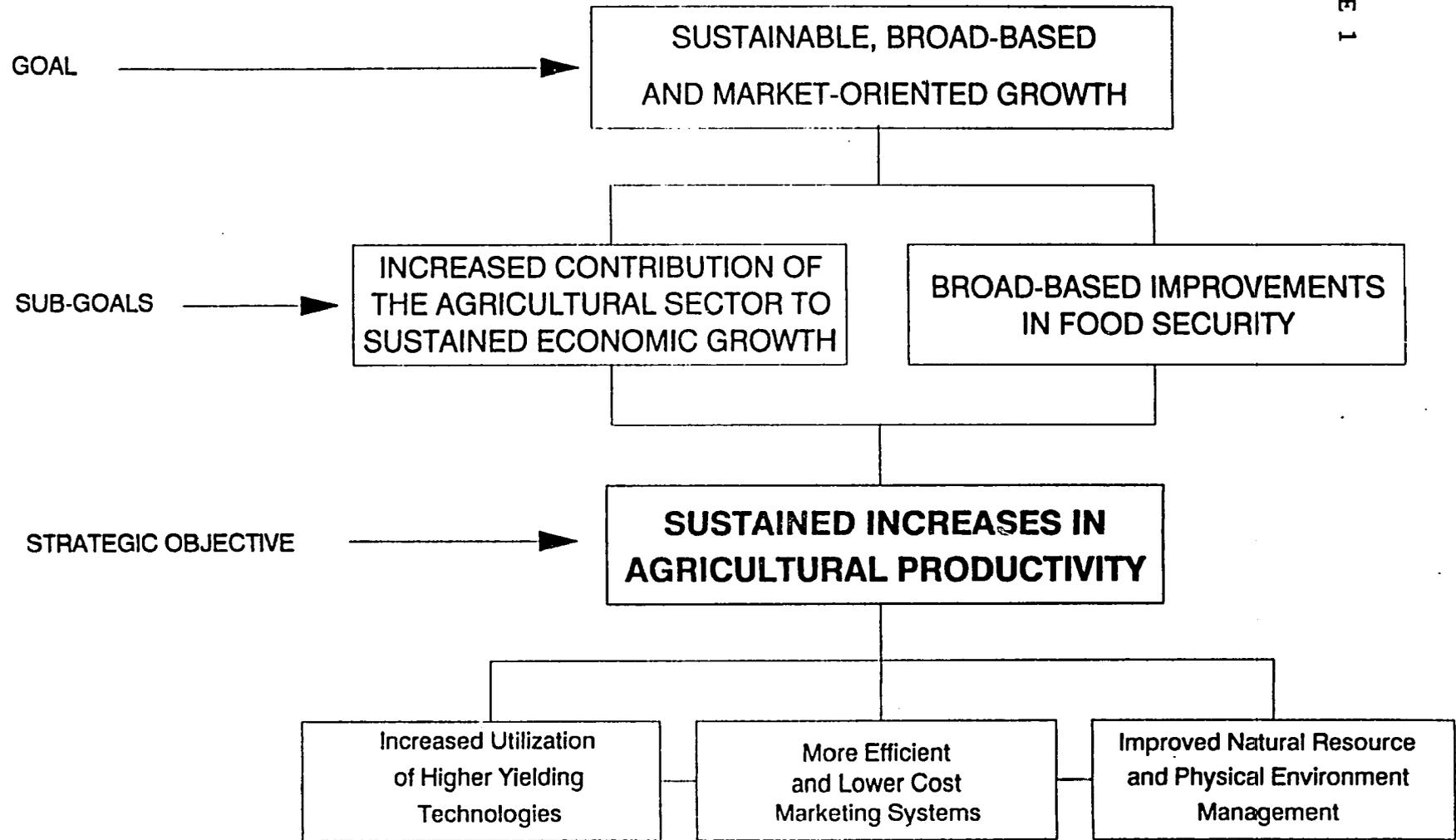
Unfortunately, significant production results have not yet been widely achieved nor sustained. New technologies have not been widely disseminated and demonstrated effectively to farmers, nor have improvements in existing production methods led to sustainable growth in agricultural productivity.

Indeed, during the past three decades, Sub-Saharan Africa is the only area of the world in which there has been negative per capita growth in agricultural production in real terms. This lack of growth in the agricultural sector has adversely affected total economic growth.

While technical issues and environmental problems have inhibited agricultural growth, the inefficiency of agricultural marketing systems has been a critical constraint to sustained increases in agricultural productivity and overall economic growth in Sub-Saharan Africa.

OBJECTIVE TREE: Agriculture and Natural Resource Sector

FIGURE 1



For example, there is a complementary and mutually-reinforcing link between efficient marketing systems and sustainable increases in production:

- * Efficient marketing systems are necessary to ensure the timely delivery of adequate and appropriate technology to producers (e.g. fertilizer, pesticides, equipment and tools).
- * Efficient marketing systems are necessary to ensure the timely purchase of the surplus generated by the new technology, at a price that enables producers to make a profit after paying for the improved technology.

African agricultural marketing systems have not worked efficiently for several reasons:

First, government policies and regulations have often discriminated against the private sector and discouraged competition. Private entrepreneurs have been legally prohibited from engaging in many marketing activities in most African countries. The policy and regulatory environment has also been unpredictable, with frequent changes. As a result, the policy and regulatory environment in many Sub-Saharan African countries has not provided sufficient incentives to encourage higher productivity and greater efficiency.

Second, African governments, with donor assistance or acquiescence, have made unsound investments in new projects while neglecting the maintenance and rehabilitation of the infrastructure and supporting services required for efficient agricultural marketing activities. Moreover, even in countries in which private entrepreneurs have been allowed to participate in a range of marketing activities, they have been reluctant to invest in market infrastructure (such as institutions or supporting services) because of the adverse investment climate.

Third, in many countries, both public entities and private agribusinesses lack sufficient knowledge and skills either to improve efficiency and productivity or to expand their activities as new opportunities emerge. For example, many Sub-Saharan states do not have the national capability (particularly in the public sector) to identify and analyze constraints and to design strategies to address them. In addition, many countries do not have the capacity (particularly in the private sector) to identify new technologies or new market niches for what they produce or could produce.

Therefore, to improve the efficiency of agricultural marketing systems will require changes in the policy and regulatory environment, a stronger and broader infrastructural

base with reliable services, and more knowledgeable and better trained marketing agents, both in the public and private sectors.

Improving the efficiency of agricultural marketing systems will ensure that sufficient incentives reach individual producers and agribusinesses to increase productivity. Improving the efficiency of marketing systems will also ensure that farmers and agribusinesses have the means to sustain increases in productivity.

B. Agricultural Marketing and Agribusiness Defined

Traditionally, many analysts have associated the marketing of agricultural commodities with the movement of produce away from the farmgate. However, agricultural marketing involves much more than this.

This Strategic Framework takes a broad approach to agricultural marketing by defining it as a process by which inputs are delivered to farmers, output is collected from farmers and commodities are transformed before being delivered to consumers. During the marketing process, value is added to agricultural commodities, especially by enterprises which transform produce. Enterprises which add value during the marketing process are defined as agribusinesses.

Agribusinesses engage in many marketing activities, including transportation, storage, pricing, promotion and distribution. Competitive agricultural marketing systems and agribusinesses have the potential to increase productivity, incomes and employment in rural areas.

Among the key functions that an efficient agricultural marketing system performs are the following:

- * The marketing system transmits information to the producer about the demand for specific crops, and methods to produce those crops utilizing the most appropriate technology given the indigenous resource base;
- * The marketing system delivers the mix of inputs required by farmers so that commodities can be produced, and collects and pays for that output in a timely manner;
- * The marketing system is the conduit through which agricultural products move from the farmgate to the consumer, during which they are transformed and value is added to them by agribusinesses;
- * The marketing system transmits information to consumers in order that they may maximize their well-being;

- * The market system transmits information to agribusinesses in order that they may adjust activities to maximize returns; and,
- * The marketing system compensates producers and marketing agents with incentives, especially higher incomes, and opportunities to use that income to buy goods and services which can raise living standards.

Indeed, one of the most important functions of an efficient marketing system is to offer incentives to individuals and agribusinesses to increase productivity. This is best accomplished by ensuring fair and timely payment to individuals and firms for their products.

Putting cash in the hands of farmers is one of the best methods to ensure sustainable gains in productivity. But raising farmers' incomes will only be effective if there are goods and services which they can buy with that cash and thereby increase their well-being. In this way, marketing, both of agricultural and non-agricultural goods and services, is the link between agricultural development and improvements in rural standards of living.

Agricultural marketing is demand driven. Efficient marketing systems transmit the information to producers that specific commodities are in demand in certain markets. Every commodity is produced to meet a demand. During the marketing process, commodities are also transformed so that they will reach consumers in the form in which they are in demand.

Hence, analyzing agricultural development from the marketing perspective involves examining issues related to the demand for commodities rather than issues related to the supply (production) of commodities. It assumes that if the demand exists for a commodity, a competitive marketing system will offer incentives which will mobilize the individuals, firms and factors of production necessary to meet that demand.

Therefore, the Strategic Framework assumes that the distinction between "cash crops" and "subsistence crops" is artificial and inappropriate. All commodities are produced to meet a particular demand, whether the demand be from local (i.e. domestic) markets, regional (i.e. across national borders within Africa) markets, or international markets (e.g. Europe).

All farmers participate in agricultural marketing activities. The important distinction to make is to what extent are farmers involved in market-oriented production and for which markets are they producing. Based on those analyses, interventions can be designed that will improve specific

marketing activities, including such seemingly simple activities as on-farm storage of coarse grains or the grinding, milling and packaging of cereals for domestic markets.

During the marketing process, value is added to agricultural commodities. Agricultural commodities increase in value when they are moved over space (e.g. from a surplus area to a deficit area), when they are held over time (e.g. storage to ensure commodities are available as demanded), and when they are transformed (e.g. processing and packaging).

Enterprises which engage in transportation, storage or transformation increase the value of agricultural produce during the marketing process. These enterprises are often referred to as agribusinesses, although agribusinesses may engage in on-farm production activities as well.

The size and scope of agribusinesses vary from small or medium-sized enterprises (e.g. a women's cooperative involved in the grinding and milling of coarse grains) to large, vertically integrated enterprises which manage the production, transport, processing and sale of agricultural products all the way from the farmgate to the consumer. Agribusinesses contribute to increased productivity in agriculture, and they add value to what has been produced. Agribusinesses have the potential to increase employment, incomes and foreign exchange earnings and savings for Sub-Saharan African economies.

While agribusinesses are one of the major participants in the marketing process, other individuals and entities also engage in agricultural marketing activities. Market participants include policy makers, market administrators, parastatal firms, individual private traders, commodity brokers, and farmers. Market participants are all individuals and entities that have a direct or indirect (supporting) role to play in the agricultural marketing process.

II. THE STRATEGIC FRAMEWORK: ELEMENTS & CONCEPTS

The Agency for International Development (A.I.D.) has been supporting agricultural development in Africa for almost thirty years. Traditionally, A.I.D.'s agricultural sector activities have been oriented towards increasing agricultural production by working directly with farmers or by helping to improve national research and extension systems. With the exception of A.I.D.'s assistance in the creation of Sahelian grain marketing boards in the late 1960s and 1970s, little assistance was directed towards improving the marketing of commodities produced by African farmers. Moreover, what support A.I.D. gave to marketing usually went to the public sector, not the private sector.

The approach suggested here for promoting agricultural marketing and agribusiness development in Sub-Saharan Africa is based on improving the three basic elements in the marketing system, and it is driven by four underlying concepts. This approach, which emphasizes the importance of competition as the optimal method to improve market efficiency, is in agreement with the priorities established under the Development Fund for Africa (DFA).

A. The Purpose of The Strategic Framework

The goal of the Strategic Framework is to assist the Africa Bureau and its field Missions to improve the quality of their activities in support of agricultural marketing and agribusiness development.

The purpose of the Strategic Framework is to offer guidance to the Africa Bureau and its Missions in order to improve the:

- * Analyses of agricultural marketing systems and how they work;
- * Design of activities to promote more efficient agricultural marketing systems with a greater role for private agribusiness;
- * Implementation of agricultural marketing or agribusiness development projects or programs; and,
- * Monitoring and evaluation of market development programs and projects.

The method of offering guidance is to provide historical and theoretical examples of the problems experienced in Sub-Saharan African agricultural marketing systems. Based on the lessons

learned from both market failures and market successes, the Strategic Framework offers recommendations for consideration and implementation.

No single document can answer all the questions about how best to design and implement an effective agricultural marketing program. Nevertheless, this document, especially in the Technical Analysis (Annex A), attempts to identify and analyze the key problems affecting the efficiency of Sub-Saharan African agricultural marketing systems and suggest methods to resolve them.

Missions are encouraged to utilize the Strategic Framework during their analyses of the agricultural marketing systems in respective Sub-Saharan African countries. Missions are encouraged to conduct analyses similar to those described in this document and Annex A, and to develop their agricultural marketing and agribusiness strategies, programs and projects based on those analyses.

B. The Strategic Framework and the DFA

The importance of promoting agricultural marketing and agribusiness development is recognized within the A.I.D. Development Fund for Africa (DFA) Action Plan (May 1989).

The goal of the DFA is to encourage economic growth that is broad-based, market-oriented and sustainable. The emphasis on market-oriented growth in the DFA is indicative of the importance of competitive markets and market prices as the most effective mechanism for allocating scarce resources, improving efficiency and increasing productivity. Indeed, this Strategic Framework shares some of the strategic objectives and targets of the DFA:

- * Reduced government involvement in the production and marketing of goods and services (Target 1-2);
- * Improved equity and efficiency in providing key public services, particularly regarding infrastructure, such as transportation (Target 1-3);
- * Liberalized commodity and factor markets (Targets 2-1 and 2-2);
- * Expanded skills and productivity on the job (Target 3-3); and,
- * Providing food and income to the poor and increasing production and utilization of agricultural commodities (Targets 4-3 and 4-4).

C. Strategic Framework Elements

The strategic objective of promoting agricultural marketing and agribusiness development is to improve the performance of the agricultural sector in Sub-Saharan Africa, specifically by contributing to sustainable increases in agricultural productivity. Improving market performance involves increasing the efficiency and lowering the costs of market activities.

To increase the efficiency and lower the costs of agricultural marketing in Sub-Saharan Africa, the Strategic Framework suggests that the three basic elements of the marketing system must be improved and strengthened. (See Figure 2, The Agricultural Marketing Objective Tree, on the following page.)

The three basic elements of the marketing system are:

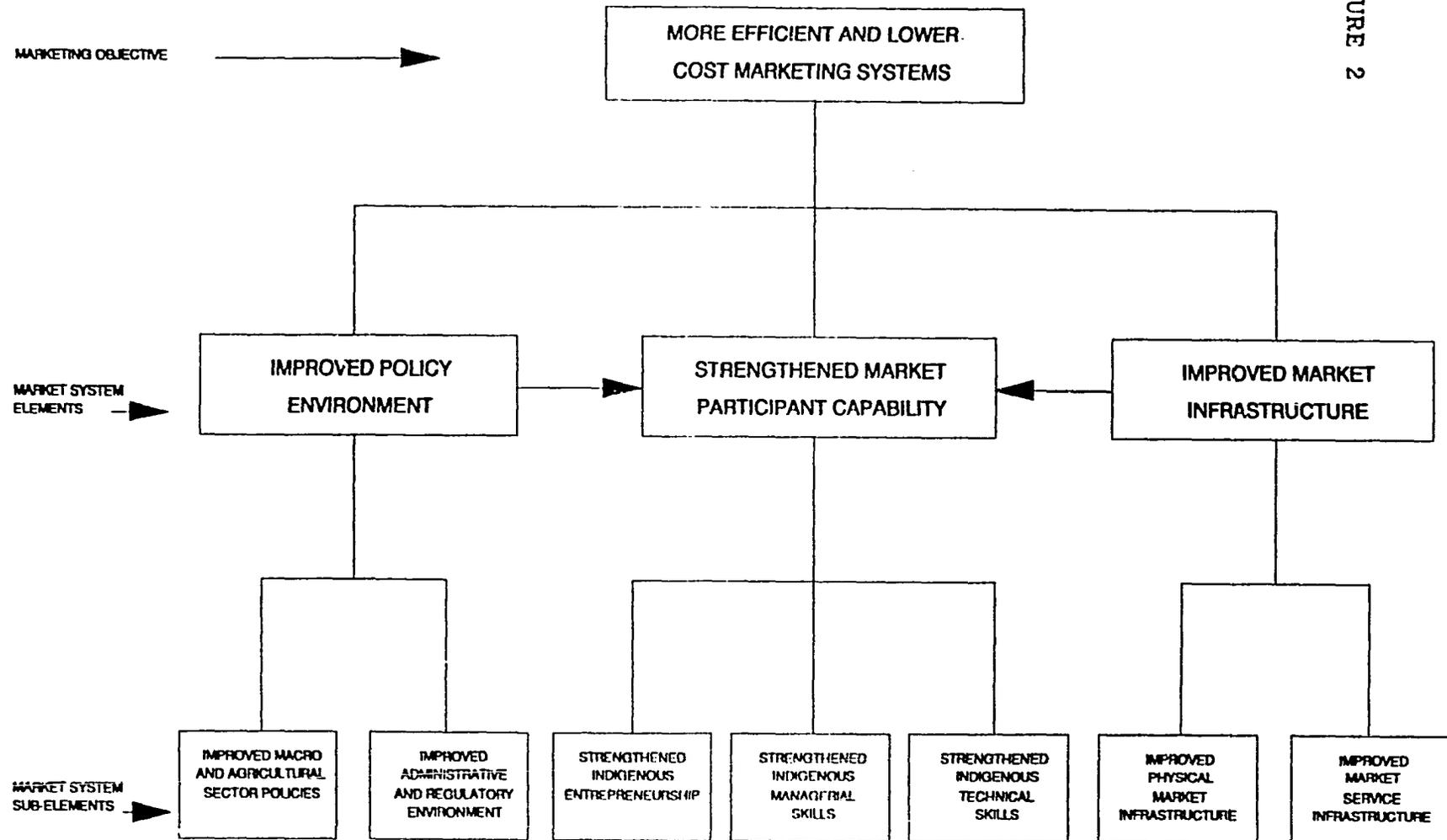
- * The macroeconomic and sectoral policies and regulations that affect marketing activities and help determine the incentives available to market participants;
- * The infrastructure (including institutions and supporting services) that is necessary for marketing activities to take place and expand; and
- * The market participants themselves, especially agribusiness, that engage in marketing activities.

In order to improve market efficiency, all three elements of the marketing system must be performing well. The purpose of supporting improvements in each element of the agricultural marketing system is to ensure that:

- * The macroeconomic and sectoral **policy and regulatory** environment provide appropriate incentives to producers and entrepreneurs to increase productivity;
- * The **infrastructure**, especially supporting institutions and services, is adequate to handle efficiently all agricultural marketing activities, from transport, to assembly and storage of commodities, and from transformation to ultimate sale to consumers; and,
- * The participants have the capacity (knowledge, skills, and resources) to: identify and analyze marketing problems and opportunities; design and implement measure to solve problems; and take advantage of opportunities to increase productivity and engage successfully in new marketing activities.

AGRICULTURAL MARKETING OBJECTIVE TREE

FIGURE 2



Annex A (Technical Analysis), Section III, examines these three basic elements and describes their complementary role in improving the efficiency of agricultural marketing systems in Sub-Saharan Africa.

D. Strategic Framework Concepts

The Strategic Framework is based on four key concepts: stages of market system development, competitive marketing, comparative advantage, and value added.

*** Stages of Market Development**

The Strategic Framework suggests that agricultural marketing systems go through five stages of evolutionary development. These stages are described thoroughly in Annex A (Technical Analysis), Section IV. B., pages 51-58. A table listing the features and driving forces of each stage of market development is included as Annex B.

Based on an analysis that indicates at which stage in its development an agricultural marketing system is, the Strategic Framework recommends certain actions that may be the most appropriate interventions to help improve the efficiency of the marketing system and promote its development from one stage to the next.

*** Competitive Markets**

Empirical studies of agricultural marketing systems illustrate that, with few exceptions, the most efficient markets are those with a high degree of competition. Without competition, there are few incentives for market participants to improve their efficiency and increase their effectiveness.

Therefore, the Strategic Framework recommends that if Missions wish to work with the public and private sectors in Africa to improve market efficiencies, their agricultural marketing strategy should support a high degree of private sector participation in marketing activities, especially by agribusiness.

*** Comparative Advantage**

Sub-Saharan Africa has a comparative advantage in the production and marketing of many commodities. Moreover, the potential exists for the production and marketing of additional commodities which may yield significant economic benefits.

Therefore, the Strategic Framework recommends that Missions contemplating involvement in agricultural marketing and

agribusiness development, build upon the existing comparative advantage which Sub-Saharan Africa enjoys and explore potential marketing opportunities.

*** Value Added**

One of the most important functions which an agricultural marketing system performs is to add value to agricultural commodities. The value of agricultural produce is enhanced when entrepreneurs transform the commodity over space, time or form.

Therefore, to increase the contribution which marketing can make to agricultural sectoral growth and strengthen the links between the farm and the industrial sector, the Strategic Framework recommends that Missions support agribusiness development.

III. THE STRATEGIC FRAMEWORK: APPLICATIONS

A.I.D. has the potential to play a critical role in promoting agricultural marketing and agribusiness development in Sub-Saharan Africa. Based on its traditional commitment to free market economies and private enterprise, A.I.D. has the experience and capability to perform several important functions in support of African public (i.e. government) and private sector (i.e. agribusiness) efforts to improve agricultural marketing systems. Four of the most important functions which A.I.D. can perform are:

- * Conduct analyses;
- * Support policy and regulatory reform;
- * Provide technical assistance to both the public and private sector in order to increase analytical and managerial capacity over the short-term; and,
- * Provide training to both the public and private sector in order to increase analytical and managerial capacity over the medium to long-term.

The Africa Bureau approach to agricultural marketing and agribusiness development attempts to build on the comparative strengths of A.I.D. as well as on the comparative advantage of the Sub-Saharan African countries with which A.I.D. works. (For more on the comparative strengths which A.I.D. has in supporting agricultural marketing and agribusiness development see Annex A (Technical Analysis), Section IV. C, pages 58-65.)

The Africa Bureau recommends that the following guidelines be followed by field Missions that are considering support for indigenous efforts to improve the efficiency of agricultural marketing systems in Sub-Saharan Africa. Moreover, these guidelines may also prove useful to Missions that are already engaged in a process of supporting marketing reform and agribusiness development but may be unsure of what to do next.

Initially, the Mission should conduct a macroeconomic analysis that indicates:

- * To what extent constraints in the agricultural sector are impeding general economic development in the country;
- * What opportunities are available to promote sustainable economic growth through an emphasis on agricultural sector activities; and,

- * What aspects of the political economy are relevant. For example: the political environment within the country (including the degree of democratization and the degree of commitment to genuine reform within the government); the unique historical experience of the country in terms of its political, economic and social development; and, the particular socio-cultural environment of the country, especially the depth of its human resource base, are all important variables affecting the pace and direction of development.

A macroeconomic and politically oriented analysis of these issues lays a firm foundation for subsequent sectoral analyses. Guidelines for using the Strategic Framework to design a program of assistance follow.

A. Agricultural Sector Analysis

Not every Mission may decide to become involved in the agricultural sector. But, once an A.I.D. Mission determines that opportunities exist to promote sustainable economic growth through assistance to the agricultural sector, and decides to pursue such activities, a thorough analysis of the agricultural sector should be conducted.

The agricultural sector assessment should identify and rank the problems affecting agricultural development. Specifically, the assessment should indicate what constraints are inhibiting the achievement of sustainable increases in agricultural productivity or relevant strategic objectives that have been identified by the Mission in its Program Logframe or Country Program Strategy Plan (CPSP). (A Generic Scope of Work for conducting an agricultural sector analysis is available upon request from AFR/TR/ANR/PA.)

The agricultural sector assessment will involve identifying and ranking constraints which limit sustainable increases in productivity in the areas of:

- * Natural Resources,
- * Agricultural Technology, and
- * Agricultural Marketing & Agribusiness.

The analysis should be conducted with as much participation as possible from host country officials, other donors, private businesses, and other public and private institutions and individuals that are involved in the agricultural sector.

Based on the agricultural sector assessment, the Mission should be able to rank the primary and secondary constraints and opportunities for agricultural sector growth. Then, the Mission should be able to determine which areas lie within its manageable interests and which ones should receive priority attention. In making this decision, the Mission will have to consider where it can have the greatest developmental impact given its scarce resources, its own management capabilities, and other factors, including A.I.D.'s comparative strengths, the host country's own development priorities and objectives, and other donor activities in the sector.

In making this important decision, the Mission should give careful consideration to the following broad questions:

- * What are the necessary and sufficient conditions for achieving sustainable increases in agricultural productivity?
- * What are the host country government, other bilateral and multilateral donors, the PVO and NGO community, and the private sector doing or planning to do to help create the conditions for sustaining increases in agricultural productivity? What remains to be done?
- * Which activities can A.I.D. support or initiate to help create the necessary and sufficient conditions to achieve sustainable increases in agricultural productivity?
- * What is the appropriate balance for the Mission agricultural sector program to take in terms of support for: natural resource management, agricultural research, and agricultural marketing?
- * What is the optimal sequence of events for the Mission to follow in implementing its agricultural sector program?

The answers to these questions will vary among Sub-Saharan African countries and their respective A.I.D. Missions. While inefficient agricultural marketing systems and weak agribusinesses may not be the most critical constraint to sustainable increases in agricultural productivity in every country, a review of Africa's recent performance suggests that improvements in agricultural marketing efficiency can make a significant contribution to overall agricultural sector led growth.

More efficient marketing systems, involving a greater role for well managed agribusinesses, can have a positive impact on the utilization of improved technology by farmers and businesses and can contribute to improved natural resource management.

B. Agricultural Marketing & Agribusiness Analysis

When an A.I.D. Mission decides that the most critical constraint to agricultural development is the inefficiency of the agricultural marketing system, the Mission should conduct a thorough analysis of the various commodity marketing systems which comprise the country's agricultural marketing system.

This analysis involves: (1) measuring the relative level of efficiency in the commodity marketing systems; and (2) assessing at what stage in its development the commodity marketing system is.

1. Measuring Marketing Performance

At any given point in time in the development of marketing systems, efficiency analysis is the best measure of market performance given a specific level of technology and specific type of infrastructure.

There are three different measures of the efficiency of markets in utilizing scarce resources to meet the demand for goods and services. These are:

- * **Allocative or Price Efficiency:** This refers to how resources are allocated among competing uses or users. It denotes the optimum allocation of scarce resources between end users, in order to produce that combination of goods and services which best satisfies national demand.
- * **Operational or Technical Efficiency:** This refers to the efficiency of a firm or industry within a given technological or infrastructure frontier. This category of efficiency may be further sub-divided to consider productive efficiency which refers to the production of a given product at the lowest possible cost, and distributive efficiency which refers to the costs (e.g. transportation, storage, handling and advertising) incurred by enterprises in distributing the output from suppliers to consumers.
- * **Economic Efficiency:** This measure refers to the combined influence of allocative and operational efficiencies holding institutions, infrastructure, technology, human capital and management constant.

Implicit in the analysis of efficiency is the assumption that, over the short to medium term, as market systems become more competitive and more efficient, marketing costs will decline, resulting in a net gain for both producers and consumers. That is, opening marketing systems up to more

competition provides the incentive for individual agribusinesses to operate more efficiently, which should lower marketing costs.

Thus, in a less developed marketing system, relatively high marketing costs may be attributable to the existence of a monopoly or oligopoly (e.g. state-owned marketing boards) or the indirect costs created by the poor state of the infrastructure (e.g. bad roads raise vehicle maintenance costs). These costs are attributable to marketing inefficiency.

As a marketing system evolves, there will likely be a greater degree of specialization among producers and especially among marketing agents, such as agribusinesses involved in transport, trade, processing, packaging and distribution. Increased specialization should lead to greater efficiency and lower costs for each marketing activity.

While efficiency is the appropriate measure of market performance at a given time, markets are dynamic. As markets evolve, there are changes in market institutions, infrastructure, technology, labor requirements, and management.

This dynamic quality of market performance may best be measured by analyzing the real costs of marketing functions or activities over time, in order to verify that market investments (such as in infrastructure, training, technology, etc.) or policy and regulatory changes are contributing to lower marketing costs.

In addition, by analyzing the cost of a marketing function or activity and by comparing those costs with the value-added by that marketing activity, one may understand better the distribution of benefits that result from increased specialization and increased efficiency in the marketing system.

Measuring the efficiency of a marketing system may reveal that there is a high degree of inefficiency because the marketing system is at a relative low stage of market development (e.g. rudimentary technology, inadequate infrastructure, low level of skills and capital, etc.). The following section provides guidance for analysts who are trying to determine at which stage in the process of development an agricultural marketing system may be.

2. The Stages of Market Development

Agricultural marketing is a dynamic process and agricultural marketing systems are constantly changing in response to both exogenous and indigenous factors. Empirical studies of agricultural marketing systems illustrate that markets evolve over time. During their evolution, marketing systems pass through several distinct stages of market development.

The Strategic Framework suggests a model of the various stages of development through which commodity systems pass. This model has been developed as an analytical tool, to provide reference points and indicators which can assist marketing analysts to describe the constraints and opportunities in a agricultural marketing system.

The model which is laid out in the Tables contained in Annex B, "Stages of Agricultural Marketing Development," suggests that agricultural marketing systems pass through five stages of evolutionary development.

Marketing systems tend to evolve from a relatively isolated, undercapitalized stage in which there are few goods and services circulating, to a relatively more interdependent, capitalized stage in which there are a wide variety of goods and services circulating. Each of the five stages are described in Annex A (Technical Analysis), Section IV. B, pages 51-58.

Once a marketing analyst has placed a commodity marketing system within the framework of the five stages of market development, certain interventions may be appropriate to move the marketing system forward to the next stage of development. These interventions are also described in Annex A (Technical Analysis), Section IV. C, pages 59-61.

Attempts to classify agricultural marketing systems and place them along a continuum of evolution will only be successful to the extent that analysts recognize that there may be differences in the degree of development both by commodity and by geography within a given country.

In other words, the stages of market development should not be applied to the whole agricultural marketing system of a country, but only to the various commodity marketing systems within each country. For example, in some Sub-Saharan African countries, domestic coarse grain marketing systems are poorly developed in relation to the marketing systems for more traditional export crops, such as tea, coffee or cotton. In addition, some regions of countries are better served by marketing infrastructure (e.g. roads) and services than other regions of the country.

Recent experience in Africa and other parts of the world illustrates that for sustained market development to occur, the first two basic elements (policies and regulations, and infrastructure and services) must be sound and functioning well in order for the appropriate incentives to reach the other element (the market participants) and thereby encourage and reward full participation in marketing activities.

For example, the extent to which statist and monopolistic policies and regulations have inhibited market growth and agribusiness development is illustrated in Annex A (Technical Analysis), Section II A, pages 30-36.

Issues related to the importance of market infrastructure, such as who should build it, maintain it and rehabilitate it, and the importance of infrastructural or supporting services are also analyzed in Annex A (Technical Analysis), Section III. B, pages 37-41.

Issues related to the performance of market participants are also analyzed in Annex A (Technical Analysis), Section II. D and E, pages 13-20 and 23-29 respectively; and Section III. C, pages 41-46.

Based on the historical performance of both the public and private sectors in Sub-Saharan African marketing systems, the Strategic Framework suggests that A.I.D. support activities that will increase the capacity of the private sector to engage in more marketing activities. Agribusinesses, whether small firms comprised of one family or larger firms engaged in sophisticated marketing activities (e.g. processing) must have the appropriate skills and resources to take advantage of market opportunities to increase productivity.

Based on a survey of many studies about marketing systems in Sub-Saharan Africa, Annex A (Technical Analysis) suggests that most agricultural marketing systems in Sub-Saharan Africa are mired in Stage One or Stage Two of their development. As a result, a strategy to promote agricultural marketing and agribusiness development in most Sub-Saharan countries will differ significantly from a marketing strategy for Asia or Latin America, where most marketing systems are at stage three or four of their development.

For example, based on the Technical Analysis, the Strategic Framework recommends that Missions consider supporting activities that will strengthen the capacity of the market participants, especially agribusinesses, to respond to market opportunities that will emerge as policy, regulatory and infrastructural constraints are removed.

During the analysis of the commodity marketing systems and how they work, analysts should also keep in mind the contribution (both real and potential) of any given commodity to economic growth. The analysis should describe and rank by priority the contribution of individual market systems within the national economy.

For example, every country has innumerable marketing channels for both agricultural inputs and outputs. Because it is

impossible to address all market constraints simultaneously, Missions should focus their efforts on those commodity marketing systems which contribute, or have the potential to contribute, the most to sectoral and macroeconomic growth.

Once the analysis is complete, the various commodity marketing systems should be described according to:

- * The stage of market development,
- * The crops for which the nation has a comparative advantage in terms of production,
- * The degree and extent of competition, and
- * The extent to which value is added during the agricultural marketing process.

Based on these analyses, the Mission should be able to determine what activities are necessary and appropriate to improve the efficiency and lower the costs for agricultural marketing and to promote agribusiness development. The Mission will have also determined what the host country government, the various donors, and the indigenous private sector are doing or can do to address marketing constraints. The Mission's choice of which interventions are necessary and appropriate will determine the type of activity that the Mission will undertake, i.e. a project or non-project activity.

C. Designing an Agricultural Marketing Program or Project

Once the marketing analysis has been completed, the Mission should consider where it will focus its support. Given A.I.D.'s scarce resources, it is important that they be focused where they can have maximum impact in promoting agricultural marketing and agribusiness development. This section offers guidance on choosing a commodity system to support and addressing agribusiness capabilities.

1. Selecting a Commodity Marketing System

Because of the differences in organization, technology, and related factors, there may be a need to emphasize different types of interventions to improve the efficiency of the various commodity marketing systems in a given country.

Within a given country, the effectiveness of the marketing elements (policies and regulations, infrastructure and institutions, and the participants' capacities) may vary, making different types of interventions more or less appropriate.

For example, the marketing constraints for cereals and horticultural produce are often very different. Policies and regulations may be the greatest impediments to efficient cereals marketing (especially for regional markets) in Sub-Saharan Africa, while infrastructural and institutional problems (such as the lack of cold storage capacity, air cargo capacity, attractive packaging material or adequate quality control) may adversely affect horticultural marketing, especially for export.

Given such differences between commodity systems, a broad goal of increasing overall efficiency in the agricultural marketing system may not provide the level of specificity needed to design and implement an effective program or project which will contribute to the achievement of the sectoral objectives.

Selecting the commodity system that is likely to have the greatest impact on broad economic growth requires attention to the demand side of the market equation. That is, for which commodity is there the greatest demand, either internally or externally? How is this demand translated into commodity prices and value added by processing? To identify the commodity system of greatest economic impact also involves assessing the relative magnitude of existing market distortions across commodities and estimating the expected impact of distortion elimination.

For example, in the case of exports the Mission, the host government and private agribusinesses should consider whether emphasis should be placed on exporting a raw product or whether emphasis should be given to adding value to that commodity, through transformation and processing, before exporting it.

In addition, the Mission may wish to concentrate its initial efforts within the commodity marketing system which contributes the most to domestic GDP (in terms of employment, income, etc.), or one which offers the greatest potential to do so.

For program or project design, the commodity system analysis should focus on:

- * Market structure (number and kind of market participants);
- * Market conduct (the behavior of market participants); and,
- * Market performance (the degree of efficiency of the market participants, such as individual firms).

The analysis could use rapid appraisal techniques. The baseline data generated during the design process would be, implicitly, the benchmarks and indicators against which increases in efficiency and reduction in costs could be measured.

The baseline data should indicate what the underlying causes of marketing inefficiency are both at the individual participant level (e.g. private agribusinesses, government regulators, market administrators, private transport firms, etc.) and at the larger systemic level (e.g. policies, regulations, institutions, infrastructure, services, etc.).

2. Agribusiness Development

While there are a variety of activities that A.I.D. Missions may wish to support, one activity which all Missions should include in their agricultural marketing programs is training. Recent historical experience illustrates that many private sector firms, where they exist, lack the skills, knowledge, resources and managerial capacity to participate vigorously in marketing activities. In addition, the public sector lacks the analytical and managerial skills needed to support and promote improvements in the efficiency of marketing systems.

Any approach to solving the problems of agricultural marketing in Sub-Saharan Africa should be flexible and balanced in order to anticipate and respond to changes in the marketing system as it evolves. However, underlying this flexible and balanced approach, there will be a continuing need for training as commodity systems pass from one stage of market development to the next.

A.I.D. has a comparative advantage in supporting capacity building for Africans in agricultural marketing skills because of the strong technical, analytical and management programs offered by private U.S. agribusinesses and U.S. colleges and universities. By drawing on these training programs, A.I.D. can make a significant contribution to strengthening the public and private sector capacity, both at an institutional and individual level, to sustain agricultural marketing development.

The Strategic Framework suggests that public sector training focus on improving:

- * Analytical skills which will support the ability of public institutions to conduct analyses, diagnose problems, and identify marketing opportunities in support of policy and regulatory reform;
- * Technical skills related to quality control and investment promotion; and
- * Financial skills related to auditing and accounting for budgetary and regulatory purposes.

During program or project design, analysts should consider what the best methods may be to increase the ability and capacity of the private sector, especially agribusinesses, to perform marketing activities efficiently. Options include:

- * Providing direct support to agribusiness firms through training and technical assistance;
- * Supporting changes in the policy and regulatory environment; or
- * Supporting trade and professional association development.

In designing training programs for African agribusinesses, Missions should analyze the technical, managerial and entrepreneurial strengths and weaknesses of the firms under consideration. Based on this analysis, private sector training will likely emphasize the development and strengthening of the following skills:

- * Technical skills for a variety of agricultural marketing activities (e.g. transport, storage, assembly, processing, etc.);
- * Management skills for indigenous entrepreneurs;
- * Financial skills for domestic agribusinesses;
- * Organizational and networking skills to increase the private sector's capacity to articulate its interests within the country and to gather information about marketing opportunities in regional (Sub-Saharan Africa) and international trade; and,
- * Business skills related to product labeling, market-niche penetration, product advertising and the like.

The recent experience of both host country governments and donor agencies in Sub-Saharan Africa indicates that improving agribusiness capability is essential to successful market development programs. Without increasing the capacity of indigenous agribusinesses to expand or improve their marketing activities, efforts to liberalize the policy and regulatory environment and to strengthen the marketing infrastructure will not automatically yield improved marketing efficiency and effectiveness. Hence, Missions may find it prudent to invest some resources early in the agricultural marketing development process to ensure that the private sector has the capability to respond to opportunities (incentives) as they emerge.

The Development Fund for Africa (DFA) gives Missions the flexibility to develop initiatives which address the critical marketing constraints. Missions can use DFA resources to support improvements to the marketing system through:

- * A program mode of assistance (which usually involves support for policy and regulatory reform or institutional change), or
- * A project mode of assistance (which usually involves technical assistance, commodities and training for both the public and private sector), or
- * A combination of the program and the project modes of assistance.

Moreover, each Mission is encouraged to experiment with innovative approaches to promote agricultural marketing growth and agribusiness development.

One innovative approach might involve combining other types of assistance, such as PL 480 Title I/III, Title II (Section 206) or Food for Progress programs, with existing modes of assistance, to achieve the desired results. Similarly, Commodity Import Programs (CIPs) may provide the best opportunity to involve the private sector immediately in commodity trade, especially for those commodities which had been legally monopolized by parastatal firms before trade liberalization programs began.

During the program or project design, an effort should be made to identify who the winners and losers will be, especially if the activity involves changes in the existing marketing system and the role of the market participants.

The social soundness analysis should also examine gender issues, economies of scale, alternative employment opportunities, and other important issues relevant to the various social groups that participate in the marketing process. Gender issues deserve special consideration in marketing analysis because of the influential role which women play in most domestic marketing systems, especially for food crops (such as grain, horticultural produce, fish, poultry and other important commodities).

The social soundness analysis should identify who the winners and losers will be as a result of changes in the marketing system. Once the winners and losers are identified, the program or project should strive, where possible, to reduce the adverse impact which the changes may have on specific social groups. Particular attention needs to be given to the special needs of economically and socially disadvantaged groups, such as market women, who may not have the resources or skills to cope with a sudden change in their role in the marketing system.

During the program or project design phase, the A.I.D. Mission should try to ensure that it is not creating the conditions for a public monopoly merely to be replaced by a private monopoly. The underlying concept of competition in marketing activities should be an objective towards which agricultural marketing programs and projects strive. This is especially important in the Sub-Saharan African context because of the socio-political climate and ethnic issues which have caused African governments to discriminate against the private sector in the past. (Regarding public misconceptions of the private sector role in the economy, see Annex A (Technical Analysis), Section II. B, page 9, and Section II. D pages 16-20.)

D. Implementation, Monitoring & Evaluation

1. Guidelines to Implementation

Agricultural marketing and agribusiness development activities will need technically competent analysts to be responsible for program or project management.

By definition, marketing is a dynamic process and not a static activity. Therefore, during implementation, program or project managers are encouraged to monitor and evaluate continually both the immediate and the medium-term impact of the A.I.D. funded marketing or agribusiness activity on both the marketing sub-sector objectives and goal, and on the broader sectoral objectives and goal.

The implementation of marketing and agribusiness development programs and projects will probably take place over several years because the development of efficient and effective marketing systems with healthy agribusinesses is a long-term process.

Therefore, it is important that marketing and agribusiness programs or projects retain some flexibility so that they can respond to the changing market conditions much as the market participants themselves respond to the changes in opportunities in marketing activities.

For example, changes in the policies and regulations related to marketing, and reforms in the administration of markets, will not be achieved quickly nor easily. Making a change in one or more policies may point to the need for adjustment in other areas that were not anticipated during project or program design. In addition, institutional, infrastructural or service development will require a long-term commitment and an ability to respond to the changing market conditions and market opportunities.

Finally, the market participants themselves will have different needs for support as they develop their own abilities to respond to market opportunities. For example, as marketing systems improve, farmers should have more opportunities to diversify and minimize risks. By minimizing risk, farmers may be encouraged to use more agricultural inputs and new technologies.

Moreover, as markets reveal the true value of commodities and their inputs (including the market value of land, labor and capital), the cost of the factors of production for various commodities should vary. This should encourage production and marketing which is based on the comparative advantage which tropical Africa has or may have for specific commodities. The result should be a modification in the crop mixes as well as the land and labor utilization patterns.

Therefore, the management of an agricultural marketing or agribusiness development program or project may require a combination of skills. Program or project management might best be accomplished utilizing a team-oriented approach so that all the requisite skills are mobilized. Program or project management teams should be comprised of individuals with the following set of technical skills:

- * Knowledge of macroeconomic and microeconomic analysis;
- * Knowledge of agricultural production technology; and,
- * Knowledge of marketing concepts and private businesses, including the behavior of marketing firms.

The dynamics of agricultural marketing require that the management team be able to examine and analyze marketing and agribusiness development issues at several levels, including:

- * Inputs and outputs;
- * Achievement of project or program purpose;
- * Achievement of the sectoral strategic objective.

The Strategic Framework model of the stages of agricultural market development (see Annex B) provides several indicators which may assist the Mission in measuring purpose, goal and people level impact, during program or project implementation.

2. Guidelines to Monitoring & Evaluation

Agricultural marketing is a dynamic process. Therefore, the monitoring and evaluation (M & E) system should be flexible and well integrated. The M & E system should track marketing project or program impact, contribute to the analysis of the impact and

identify future interventions that will contribute to the process of market growth and agribusiness development.

Removing one marketing constraint may improve the efficiency of one part of the marketing system, but other problems will continue to emerge as the marketing system evolves. Hence A.I.D. should be engaged in an iterative and flexible process of identifying constraints, prescribing actions to overcome them, monitoring and evaluating the subsequent adjustments, and making new recommendations for additional interventions based upon the lessons learned.

Successful implementation of a marketing activity requires the establishment of sound baseline data and a monitoring and evaluation system which generates timely data on a regular and periodic basis.

Missions that are already actively engaged in supporting agricultural development, and have a sound M & E plan, may want to integrate their marketing and agribusiness M & E plan into the agricultural sector M & E plan. Integrating M & E plans contributes to a more robust M & E system.

The marketing and agribusiness M & E plan can provide the A.I.D. Mission and host country with the data necessary to analyze what kinds of investments or other activities are needed to continue increasing the efficiency of the agricultural marketing system. At the sectoral level, analyses can contribute to decisions about what activities will best promote sustainable increases in agricultural productivity.

Both public and private sector market participants should be involved in the M & E plan. The information generated should be available to all market participants, including government policy makers, marketing administrators, and private firms.

The illustrative indicators, or benchmarks of performance, listed below are presented in terms of their relation to the DFA targets. The indicators are relevant at the goal and purpose level. The specific inputs and outputs for marketing and agribusiness programs or projects will vary according to the constraints that are being addressed and the opportunities that are being created, and how the Mission determines to structure its marketing and agribusiness activity.

The indicators and benchmarks are illustrative; the specific indicators that a Mission will choose as its key indicators will vary and they will not always include all of the following. Indeed, experience to date indicates that it is difficult to achieve strong results in all of the categories indicated below.

3. Illustrative Indicators

- (A) **Agricultural Sector Strategic Objective: increased agricultural productivity on a sustainable basis.**

Benchmarks of Performance:

- * Value of agricultural production per land unit;
- * Value of agricultural production per labor unit;
- * Value of agricultural production per capital unit;
- * Value added per unit of capital in agribusiness; and,
- * Value added per unit of labor in agribusiness.

- (B) **Measures of the Linkage between the Marketing and Agribusiness Objective and the Agricultural Sector Strategic Objective.**

Benchmarks of Performance:

- * Reduction in per unit marketing costs;
- * Increase in per unit producer prices;
- * Decrease in per unit consumer prices; and,
- * Increase in agribusiness profit share.

- (C) **Marketing and Agribusiness Objective: more efficient marketing.**

Benchmarks of Performance:

- * Prevalence of markets which have competition;
- * Price differences across space which reflect transfer costs (transport, handling, losses and transaction costs) plus a normal return for performing the spatial arbitrage function;
- * Price differences over time which reflect real storage costs (depreciation, interest and losses) plus a normal return for the temporal arbitrage function;
- * Price differences of unprocessed and processed agricultural commodities which reflect the real processing costs (depreciation of plant and equipment, variable operating costs, labor costs) and a normal return for performing the transformation function;
- * Investments based upon comparative advantage and greatest expected return; and,
- * Increased earnings at the firm level.

ANNEX A

A TECHNICAL ANALYSIS OF AGRICULTURAL MARKETING
AND AGRIBUSINESS DEVELOPMENT IN SUB-SAHARAN AFRICA

**A TECHNICAL ANALYSIS OF AGRICULTURAL MARKETING
AND AGRIBUSINESS DEVELOPMENT IN SUB-SAHARAN AFRICA**

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I. INTRODUCTION

A. The Role of Agricultural Marketing and Agribusiness in Economic Development

Agriculture is the dominant sector of most Sub-Saharan African economies. The agricultural sector is the:

- * Largest employer of labor (with 65 to 80 percent of the labor force in most countries engaged in farming or off-farm employment utilizing agricultural materials);
- * Major source of income and provides the greatest portion of Gross Domestic Product (GDP) (between 40 and 70 percent for most countries);
- * Largest earner of foreign exchange (ranging from 40 to 90 percent, excluding Nigeria);
- * Greatest source of food needed to meet domestic demand; and,
- * Most important source of raw materials for the industrial (agro-processing) sector.

Moreover, rural families are potentially the largest domestic market for products made by processing agricultural commodities.

Given the critical role of agriculture in Sub-Saharan Africa and the important linkages between the agricultural and industrial sectors, sustainable economic growth can best be achieved by improving the performance of the agricultural sector. Indeed, development specialists have long looked towards the agricultural sector to provide the surplus (savings and capital) necessary for investments in social overhead and industry.

Improving the performance of the agricultural sector involves increasing productivity. Sustainable increases in productivity can best be achieved by:

- * greater adoption of high-yielding technologies;
- * improved management of natural resources; and,
- * more efficient marketing of agricultural commodities.

Efficient agricultural marketing systems and agribusinesses play a key role in promoting sustainable economic growth and contributing towards food security. Agricultural marketing

systems deliver food to urban consumers, add value to what is produced, and export commodities so that the nation can earn the foreign exchange needed to import what it cannot produce.

Given the trend towards urbanization in Africa, an increasing number of households will continue to depend on the market as their sole source of food. (While only about 27 percent of Sub-Saharan Africa's population was urban in 1988, the urban growth rate of 6.9 percent per annum is the highest in the world.) Therefore, improved agricultural marketing and commercialization of food production are of critical importance in ensuring food security.

B. Agricultural Marketing and Agribusiness Defined

Traditionally, many analysts have only associated marketing of agricultural commodities with the movement of produce away from the farmgate. However, agricultural marketing involves many more activities than this.

Agricultural marketing is a process by which inputs are delivered to farmers, output is collected from farmers and commodities are transformed before being delivered to consumers.

Agricultural input marketing involves the buying and selling, transportation and storage of items such as seeds, fertilizers, agricultural instruments and equipment, pesticides and herbicides, draft animals and appropriate technologies.

Agricultural output marketing involves the buying and selling, and transportation, storage, grading and sorting, transformation, packaging, promotion and distribution of what is produced on farms.

However, this does not imply that marketing is purely an extractive process. On the contrary, one of the most important functions of an effective agricultural marketing system is to put cash in the hands of farmers. The best way to do this is to ensure that produce is collected and paid for on time.

Efficient marketing involves offering incentives to farmers to increase production. Paying high producer prices is one incentive which can encourage production for the market. But raising farmers' incomes will only be effective if there are goods and services which they can buy with that cash and thereby improve their well being. In this way marketing becomes the link between agricultural development and improvements in rural standards of living.

Indeed, agricultural marketing is a demand-driven process. In response to consumer demand for specific produce, farmers

demand the seeds and technology to produce those commodities, and agribusinesses deliver the inputs, collect the output, and transform the produce to meet consumer (market) demand.

Some products tend to be in demand in local (i.e. village) markets; others tend to be in demand in both local and regional markets; and still other products are in demand in many markets: local, regional, national and international. Nevertheless, all commodities are produced by farmers to meet a specific demand.

Empirical evidence strongly indicates that virtually every farmer in Africa, no matter what he or she grows, sells some of that output in the market in order to buy the goods that are not produced on the farm.

Therefore, all farmers participate in agricultural marketing. There is no significant, inherent difference between those farmers who tend to produce "cash crops" (i.e. crops for the export market), and those farmers who are involved in "subsistence agriculture." The important distinction is to what degree are farmers involved in market-oriented production and for which markets are they producing? Once the answers to these key questions are known, then an effective strategy for increasing farmer's participation in marketing can be developed.

An agricultural marketing system links the various functions performed by the participants in the marketing process over time and space and enables the participants to coordinate production, distribution and consumption activities.

Among the participants involved in agricultural marketing are: farmers (producers), private traders, cooperatives, parastatal marketing boards, private businesses (domestic and international), private and public institutions, regulatory bodies and government agencies.

During the marketing process, value is added to agricultural commodities, especially by enterprises which transform agricultural produce.

Enterprises which transform agricultural produce are often referred to as agribusinesses, although agribusinesses engage in other marketing activities as well.

By definition, a firm which is engaged in one or more of the activities involved in agricultural marketing is an agribusiness. While some agribusinesses, especially vertically integrated firms, engage in production, production is not one of the functions under consideration.

For example, agribusinesses engage in the supply (transport and sale) of inputs to producers; the purchasing, assembly and

storage of farmers' produce; as well as the processing, packaging, promotion and distribution of finished products to retailers or consumers. Agribusinesses are also involved in research and extension work, and other development activities.

The size and scope of agribusiness vary from small or medium-sized enterprises (for example, a women's cooperative involved in the grinding and milling of coarse grains) to large, vertically integrated enterprises which manage the production, processing and sale of agricultural products from the farmgate to the consumer.

Often markets are linked through the transformation of a product during the marketing process. Therefore, it may be useful to analyze the various commodity systems which comprise the whole agricultural marketing system. Various commodities have different marketing requirements and it is important to note these as well.

This technical annex does not analyze methods to improve the production of the goods and services which are exchanged in agricultural markets. Production is necessary for marketing to take place, but one of the key assumptions of market analysis is that if sufficient demand for a good or a service exists, there will be an adequate supply response. (This also assumes that there is appropriate technology to produce the good or service and that production takes place with minimum disturbance of the natural resource environment.)

Indeed, when there is no supply response to the demand for an agricultural good or service, it is often because the marketing system is not functioning efficiently. For example, a marketing system may not be transmitting the demand information and so producers cannot respond. Market imperfections are caused by many factors. This technical annex describes these constraints and suggests methods to alleviate them.

C. Approaches to Agricultural Marketing

Given the important contribution which efficient agricultural marketing and agribusiness make to sustainable increases in agricultural productivity and economic growth, several models have been developed to assist development planners improve market efficiencies. These models involve five basic approaches.

*** Marketing Policy Approach:**

Focus on the policy and regulatory constraints in marketing. This involves analyzing the effect of agricultural price policy, exchange rate policy, and macroeconomic variables (i.e.

government budget, money supply, inflation) on marketing incentives and performance, and the effect of trade policy on agricultural imports and exports.

* Functional Approach:

Focus on the performance of marketing functions and methods to improve efficiency, lower costs and increase productivity. This involves analyzing handling, sorting and grading, transport, storage, processing, and selling at the wholesale and retail level.

* Institutional Approach:

Focus on fundamental issues associated with contract enforceability, property rights, and broad institutional and political issues (such as stability and uncertainty). This involves analyzing the advantages and disadvantages of alternative institutional arrangements, including the appropriate role for the public and private sector.

* Commodity Systems Approach:

Focus on a particular commodity and methods to improve the marketing system for that commodity. This involves analyzing the system's organization, its marketing costs and world commodity prices. This approach can also be extended to include an analysis of the marketing system in terms of its structure (competitive, monopsonistic, oligopolistic, etc.), its conduct (the behavior of the marketing participants), and its performance (efficient use of resources).

* Agribusiness Approach:

Focus on the coordinating role which agribusiness can play in the production, transformation (processing), and distribution of agricultural commodities. As applied to developing countries, this involves the development and refinement of integrated commodity systems which produce and add value to commodities which are usually destined for higher income urban and foreign markets.

Recently, two additional approaches have been advocated by developmental strategists working in Sub-Saharan Africa. These approaches combine aspects of the previous models but have their own unique objectives:

* Food Security Approach:

Focus resources on the research and development of key staple food crops (especially coarse grains), the complementarity

of food and cash crop commodity systems, and specialization and the trade options for achieving food security.

* Market Town Development Approach:

Focus investments (such as infrastructure, local government services, improved revenue generation, and small or medium-sized agribusiness activities) in emerging secondary cities which have the potential to decentralize marketing functions while strengthening rural-urban linkages.

Each one of these approaches begins from different assumptions about the process of economic growth and which investments should take priority in promoting growth.

This annex does not attempt to address the academic issue of which approach is the best one to take in Sub-Saharan Africa. Instead, this document attempts to integrate elements of these approaches into an effective, flexible strategy. Flexibility is necessary because economic growth is a dynamic process. Any attempt to impose a rigid, dogmatic approach on a dynamic process will only result in partial success at best or even failure to promote growth.

D. The Africa Bureau Approach

An analysis of the historical development of agricultural marketing in Sub-Saharan Africa indicates that a broader perspective of agricultural marketing is needed than that taken by those who define agricultural marketing as simply commerce in agricultural products.

The technical analysis which follows indicates that there are three basic elements in a marketing system:

- * the macroeconomic and sectoral policies and regulations that affect marketing activities;
- * the infrastructure (including institutions and services) necessary for marketing activities to take place; and,
- * the participants that engage in marketing activities, especially agribusinesses.

The relative strength of each element is indicative of the relative development of an agricultural marketing system. Hence, analysts are encouraged to examine and consider the degree of competitiveness of the system, and how macroeconomic, financial and legal factors (market structure) affect marketing incentives. This approach also involves analyzing the behavior (market

conduct) of the various participants in the marketing process, especially the public and private sectors, in order to determine their relative efficiency. Finally, this approach involves analyzing the performance of the marketing system in terms of its efficiency in promoting sustainable increases in productivity and economic growth.

The analysis which follows examines the past performance of public and private sector marketing participants and suggests what may be the most appropriate roles for both to take. Therefore, the focus is on methods to improve the efficiency of the marketing system by improving the performance of all participants engaged in marketing activities.

The analysis indicates that, in most cases, it is more important to ensure that a function be performed efficiently and cost-effectively than to attempt to ensure that a certain entity or individual perform it. That is, it is important for the decisions regarding who performs what functions to be determined by the market itself (i.e. the forces of supply and demand) rather than by other forces.

Obviously, political and social considerations have affected and will continue to affect marketing decisions, especially in the area of policy. Nevertheless, policy-makers should try to minimize the variables which distort the free interplay of competitive market forces in order to promote the growth of efficient marketing systems.

II. RECENT AFRICAN HISTORICAL EXPERIENCE

A. Natural Resources and the Environment

The natural resource base and climate are the most important determinants of aggregate agricultural production and, as such, they have an indirect affect on the volume of produce marketed. The resource base, and how farmers use technology to adapt to its constraints, determines what is the most feasible mix of crop and livestock enterprises and sets technical limits on the production and marketing potential.

Sub-Saharan Africa has a thin resources base and a less than ideal agricultural environment. The greatest environmental factor in Africa is the weather, especially the temporal and spatial distribution of precipitation. Rainfall throughout Africa is highly seasonal and the arrival of the wet and dry seasons fluctuates greatly.

Fluctuations in the timing and amounts of rainfall have a significant impact on total production levels and, ultimately, on marketing because dryland agriculture is the dominant mode of crop and livestock production in Sub-Saharan Africa. The year-to-year vagaries in production and marketing levels caused by fluctuations in weather contribute to market instability. Recognizing the importance of natural resource management and appropriate technology for farming under such circumstances, the Africa Bureau has developed two plans for A.I.D. activities in these respective areas.

Geography also inhibits the ability of many Sub-Saharan African nations to increase agricultural marketing. Many countries are land-locked or have populations living far from seaside ports and there are few natural waterways on which relatively inexpensive shipping could be done. Instead, farmers and consumers must rely on the few, relatively high cost methods of transport available, such as railroads and roads.

B. The Political Environment

There are two underlying political reasons for the failure of most African governments to develop effective agricultural marketing strategies:

- * First, since independence the ethnically diverse Sub-Saharan African states have given priority to building national purpose and forging a national identity.

- * Second, these governments have been characterized by fragile legitimacy, weak representative institutions and almost non-existent bureaucratic traditions.

Virtually all Sub-Saharan African nations have very arbitrary borders which were only defined by the colonial powers less than 100 years ago. Within these states are a multitude of cultural and linguistic groups. The ethnic diversity of Sub-Saharan Africa nations sharply contrasts with the relative ethnic homogeneity of other developing countries, such as those in Latin America or South Asia.

This cultural and linguistic diversity contributes to tensions within the political economy. For example, the relatively influential position held by Asian and Lebanese communities in commerce in East and West Africa, respectively, gives an additional political dimension to any policy decisions which government makes to promote private enterprise. In order to deal with these tensions, governments have tried to create institutions which will build national unity.

One of the methods governments have chosen to build national economic unity is to rely on public sector firms to engage in economic activity that cut across ethnic boundaries. However, while state-owned enterprises (SOEs) may achieve the political purpose of bringing together diverse linguistic and cultural groups to work for a common purpose, SOEs generally have not increased the efficiency of those economic activities in which they are engaged. This is because the political purposes to which SOEs are put often undermine the basic market principles of allowing the forces of supply and demand to determine the most efficient allocation of resources.

The legitimacy of the initial rulers of Africa's independent states was based on their leadership in the struggle against the colonial rulers. With the passage of time, that fragile basis for legitimacy has been called into question by successive military coups and counter-coups.

While most newly independent states were established with several political parties represented in democratically-elected legislatures, almost all Sub-Saharan African nations have become one-party states. Moreover, very few countries have had free and open, multi-party elections since 1970. As a result, during the past three decades, these governments have become less representative of the various social, ethnic and economic groups within their borders. Special interest groups, largely residing in the capital cities, have tended to dominate the political and economic agenda which these governments have pursued.

At independence most states did not have very well developed indigenous bureaucratic traditions. The bureaucracies which

Africans inherited from their colonial rulers were weak. National administrations lacked indigenous, technically competent bureaucrats. Even after more Africans improved their analytical, financial and managerial skills, these bureaucrats had little ability to influence major policy decisions.

Many state administrations lack a system of rewards for capable technicians. Instead, these systems are characterized by patronage and political favoritism which have mitigated against the creation of meritocracies. Moreover, there are few institutional channels open to small-scale farmers and private entrepreneurs through which they can make their needs known to policy makers and technicians who are capable of solving their problems.

As a result, the ruling elite are often not accountable to any constituency except themselves for their political and economic decisions. And the process by which policy decisions are made, infrastructure and institutions are created, and economic transactions are regulated, is highly susceptible to influence by the few interest groups represented at the center of political power.

C. Africa's Economic Crisis

Since the mid-1980s, most Sub-Saharan African countries have faced a severe economic crisis that has not yet abated. Among the exogenous factors which have contributed to the crisis are:

- * poor weather in the late 1970s and early 1980s;
- * rising world oil prices;
- * falling international prices for primary products;
- * escalating real interest rates in international financial markets; and,
- * a net decline in total donor assistance.

However, the underlying causes of the crisis have been endogenous, including:

- * unsound government policies;
- * a dramatic increase in the public sector and its role in the economy;
- * a rise in the amount of borrowing to finance investment activities; and,
- * unsound government investments.

The economic crisis has been characterized by perennial balance of payments deficits, periodic shortages of foreign exchange, chronic government budget deficits and a rise in external and domestic debt.

Sub-Saharan Africa's most serious macroeconomic problem is its enormous external debt burden. Sub-Saharan Africa's external debt in 1988 was about \$71 billion, of which \$51 billion is owed to official sources, including the IMF.

While these debts (excluding Nigeria and Cote d'Ivoire) are no threat to the international financial system, because of their relatively small size and the small exposure of commercial banks, they are a more severe burden to African nations than the debt of middle-income countries is to their economies.

Debt service payments for Sub-Saharan Africa are \$4 billion per annum, with \$2 billion going to official sources. The debt/export ratio is 415, the debt/GNP ratio is 99, and the debt service ratio is 29.

This means that Sub-Saharan African countries will need to increase export earnings in order to meet their debt service obligations and still pay for the imports needed to sustain growth. With agricultural exports comprising 40 percent of total exports in Sub-Saharan Africa, growth in agricultural marketing can help alleviate the debt crisis.

However, the agricultural sector is also in crisis. Sub-Saharan Africa is the only area in the world in which agricultural production per capita declined between 1965 and 1985.

Since 1970, agricultural production has grown at an average annual rate of 1.5 percent, but with population growth averaging 3.0 percent per annum, the result has been a net decline in output. This has adversely affected domestic food availability and export earnings.

According to a World Bank study, the primary cause of low foreign exchange earnings and the rising trade deficit is the decline in the aggregate volume of agricultural exports, not a fall in world commodity prices.

World market prices for Sub-Saharan Africa's primary products have fallen since 1980, but only by half as much as the world average for agricultural commodities. Prices of major African exports, such as tea and cocoa, have stayed relatively high while cereal prices have tumbled at a much faster rate. Many countries import rather than export cereals (such as rice in the Sahel and wheat in East Africa), but the modest positive impact the price declines could have had on trade balances was mitigated by the rising volume of cereal imports.

Moreover, Sub-Saharan African countries lost their share of international trade for many commodities in which they have a comparative advantage. Africa's world market share of oilseeds,

coffee, tea, cocoa, bananas, and cotton has fallen sharply. For example, Ghana's share of the world cocoa trade fell from 30 percent (1967) to only 12 percent (1983); Ghana has fallen from first to third place in world cocoa trade. While some of the trade was taken by Cote d'Ivoire, which has emerged as the world's leading cocoa exporter, Brazil and Malaysia took significant shares of the world cocoa trade. Brazil has overtaken Ghana to become the world's second leading cocoa exporter. Malaysia, the world's fourth leading cocoa exporter, has surpassed Nigeria and is poised to surpass Ghana, too.

Similar trends have characterized the oilseed trade with Brazil and Malaysia also overtaking many African countries in terms of both their share of world trade and their productivity of crops such as groundnuts and the oil palm, respectively.

The only areas in which Sub-Saharan Africa has made modest progress in international trade has been made in increasing Africa's market share of tobacco, sugar and horticultural commodities.

Since 1970, Africa's export volumes (excluding petroleum) have been roughly static, while the export volumes of all developing countries have more than trebled. If Sub-Saharan Africa had merely held onto its 1970 world market share of the commodity trade, its export earnings would have been about \$4 billion higher in 1988, which is about equal to the annual bill for debt service payments.

While exogenous factors exacerbated the crisis in the agricultural sector, the principal causes of the decline in Sub-Saharan Africa's export position have been unsound domestic policies and lack of technical innovation in agricultural enterprises. Governments:

- * allowed their exchange rates to become over-valued which encouraged imports but discouraged exports;
- * implemented subsidies which skewed consumption and production patterns;
- * intervened in markets through price controls and other restrictive practices which created disincentives for private sector initiatives in marketing;
- * overextended the role of the public sector in the agricultural sector, especially in marketing activities; and,
- * unsound capital investments made while neglecting the maintenance and rehabilitation of the marketing infrastructure.

As a result, Sub-Saharan African marketing systems became less competitive and more inefficient.

Although African governments bear the primary responsibility for the economic crisis which they now face, the donors share in the responsibility. Throughout the 1970s, the donors provided support which implicitly encouraged the policy decisions that African governments made. It was not until the early 1980s, when the extent of the economic crisis became clear, that the donors encouraged African governments to reorient their policies and the Africans themselves realized that they had to make changes in the way their economies were structured.

D. The Role of the Public and Private Sectors

1. Agricultural Marketing Boards

Perhaps the most deleterious marketing policy which African governments have pursued has been to increase the role of the public sector at the expense of the private sector. The contemporary dominance exerted by the public sector in agricultural marketing has its roots in the colonial period.

The first parastatal marketing boards were created in an attempt to raise producer prices, farmers' incomes and export earnings. Colonial regimes believed that government control of trade would reduce marketing costs to the benefit of the producers, while simultaneously raising government revenues through control over exports and collection of export duties.

The first Sub-Saharan parastatal marketing board was established in Zimbabwe (then Southern Rhodesia) in 1931 in response to pressure from European farmers for support of the export price for maize. In 1933 the Coffee Board of Kenya was organized for British farmers and by 1945 there were seven other marketing boards in Kenya. By the time independence came, all British East and Central African countries had marketing boards for agricultural commodities.

Experiences in West Africa were similar. The West African Control Board, established by the British in 1942, was the origin of marketing boards in that part of the continent. By 1950, eight marketing boards controlled the export of groundnuts, cocoa, oil-palm products and cotton in The Gambia, Nigeria, Sierra Leone and Ghana, with financial resources exceeding those of the respective colonial governments themselves.

The evolution of marketing boards in French Africa was more complex, with the principal effort after World War II focussed on the Caisse de Stabilisation which attempted to moderate price

changes by trading alongside private firms. The various Caisse acted as a buyers of last resort, holding stocks for future disposition.

The independent governments of Sub-Saharan Africa gradually expanded the role of the public sector in agricultural marketing activities. African governments have tried to use state-owned enterprises (SOEs) to:

- * reduce risks for small-scale farmers;
- * ensure markets and input supply by promoting price stability;
- * provide public sector revenues;
- * support large-scale investments in processing; and,
- * address constraints created by inadequate financial markets.

By the early 1970s, SOEs not only had statutory monopolies over the export of cocoa, coffee, tea, cotton, palm oil and groundnuts, they also controlled the marketing of some staple food crops, especially maize and rice. Root crops, fruits and vegetables and most coarse grains (millet and sorghum) have been left to private traders after a few unsuccessful parastatal attempts to intervene in marketing.

Case studies of agricultural marketing SOEs operating in Sub-Saharan Africa indicate that most boards have not improved the efficiency of marketing systems and they have not served the interest of the farmers they were supposed to serve.

In Tanzania, parastatal marketing boards held monopoly buying and selling power for most export crops, including cotton, tobacco and coffee. In the 1970s, the government set producer prices below world market prices in order to raise government revenue. As a result, the farmer's share of export earnings fell below 50 percent. Tanzanian farmers responded to this price structure by switching to basic food crops, and exports of cotton, tobacco and coffee fell by 33 percent in just 7 years.

Agricultural marketing boards have not improved market efficiency because:

- * they have operated as monopolies, and without competition they have had little incentive to improve their services;

- * they expanded their scope of operations to include activities for which they were not suited and for which they were not adequately compensated; and,
- * the surplus funds that marketing boards generated through price stabilization activities in the 1960s were used by governments for investment and development activities in the 1970s that did not benefit farmers.

Thus, when world prices slumped in the late 1970s, SOEs and governments lacked the funds to maintain producer prices, which led to lower prices and lower production levels of export crops, or farmer sales in parallel markets where prices tended to be higher. Alternatively, as prices were maintained at unsustainable levels, many SOEs kept operating only by accumulating large debts at parastatal financial institutions.

Most public sector marketing entities, such as SOEs and cooperatives, have been unable to perform efficiently because of internal constraints as well as government policies.

Among the internal constraints are:

- * inefficient and inexperienced management;
- * inadequate record-keeping and stock controls;
- * late arrival of buyers in crop-producing areas;
- * poor financial controls of accounting and auditing;
- * insufficient cash resources to purchase produce resulting in late and/or incorrect payments to farmers;
- * lack of transport vehicles and poor logistic management; and,
- * over-staffing and high costs of operations.

Despite their role in creating or exacerbating agricultural sector problems, SOEs endure in Sub-Saharan Africa. The persistence of large agricultural marketing boards with grave financial difficulties is attributable to their important political and social functions.

- * SOEs enable governments to exert control over economic activities that are considered to be strategic or in the national interest.
- * The boards, themselves, wield considerable power because of their control over resources and jobs.
- * SOEs continue to be instruments of national unity and relatively easy sources of raising government funds.
- * SOEs ensure that the indigenous population will have some role in the agricultural marketing system in the face of competition from and the threat of dominance by large

foreign private firms or ethnic-based private trading networks.

Moreover, some SOEs have performed their marketing functions efficiently and served their clients well. Hence, it may be possible to increase the efficiency of SOEs which African governments may be reluctant to privatize through:

- * exposure to market forces;
- * improved management techniques; and,
- * enforcement of normal business operating procedures.

2. Agribusinesses (Private Marketing Agents)

Sub-Saharan African governments encouraged SOEs to take up diverse economic activities because these governments did not want to lose control over strategic resources or activities which were of national importance.

African governments have been especially keen to prevent foreign firms or particular ethnic groups from exerting a dominant influence over marketing and other economic activities.

Among other things, governments feared that private firms would make excessive profits at the expense of small farmers. The origins of this fear can be traced back to the nationalistic reaction to colonialism during the first decade of independence.

During the colonial era, many European firms invested in Africa because the colonial government guaranteed:

- * efficient administration (especially in legal matters);
- * political stability; and,
- * a favorable tax and investment climate.

Among the first firms to invest in colonial Africa were:

- * the British Royal Niger Company (later known as the United African Company, which was ultimately bought out by Lever

Some SOEs have been well managed: the Kenya Tea Authority, the Botswana Livestock Marketing Authority, and several cotton SOEs in Francophone West Africa (Togo, Cote d'Ivoire and Burkina Faso). The Kenya Tea Authority is efficient because it has organizational autonomy (independence from political interference), and an effective system of accountability and incentives for growers, field personnel and factory managers. The basis of the incentive system is the price differential paid to growers for the quality of their tea. A single fixed price would remove the incentive to improve the quality of tea grown.

Brother's or Unilever, one of the world's largest vegetable oil processing firms);

- * the Compagnie Francaise de l'Afrique Occidentale (C.F.A.O.), still one of the dominant wholesale and retail firms in West Africa; and,
- * Brooke Bond and British American Tobacco (BAT) in East Africa.

Shipping between West Africa and Europe was handled by Elder Dempster (still an active participant in the region), and financing for marketing investments came from the Bank of British West Africa and the Banque de l'Afrique Occidentale. European traders, shippers and bankers collaborated in the purchase of peanuts, cocoa, and palm products for shipment from West Africa to Europe where they were processed into salad oil, margarine, chocolate and other products which were sold to consumers in Europe and elsewhere.

In Central and East Africa there was a greater degree of vertical integration because of the presence of European settlers and the absence of restrictions on direct production. Whereas African farmers produced virtually all of the goods traded in West Africa, there were more expatriate estates and plantations in East and Central Africa.

At independence, most African governments nationalized the export marketing of primary products and replaced European

Unilever constructed plants for extracting and processing palm oil and manufacturing soap and margarine in Nigeria and Zaire in the 1930s; Zimbabwe, Zambia and Malawi in the 1940s; Kenya in 1953; Ghana in 1963; and Uganda in the 1970s. By the end of the 1950s, Unilever had integrated its vegetable fat industry in several African countries from production or farmgate purchase of the raw product to the processing and sale of a consumer good.

However, its main business remained that of exporting large amounts of fats for processing and sale in Europe. During the 1950s, Unilever gradually trained African personnel to take over. But gradualism failed as the turmoil caused by Africanization forced a rapid and massive departure of European personnel. In response, Unilever diversified its manufacturing activities and began to cede its direct trade with African consumers and producers to local traders, assisting them with credit arrangements to serve as middlemen in collecting farmer's production and distributing imported consumer goods like bicycles and farm machinery.

settler estates by some combination of state farms, large private African farms and African smallholder production.

The initial disruption caused by the abrupt Africanization of many marketing activities slowed down the pace of investment by European multinational companies.

Gradually, however, European and American firms developed new relationships with African governments and indigenous public and private entities. New methods of doing business have included management contracts and consultancies, joint ventures and the supply of business and logistical services.

Still, foreign investment in Africa remains lower than anywhere else in the developing world. This has constrained the dissemination of new technologies and inhibited the development of managerial skills needed for more efficient marketing activities, especially the processing and packaging of agricultural produce.

Investors continue to be attracted to countries with:

- * liberal investment climates;
- * nearness to potential export markets;
- * cheap resources in good demand; and,
- * the possibility of serving an expanding internal or external market.

Unfortunately, all these elements are found in few Sub-Saharan African countries.

Instead, foreign investors usually must deal with economies characterized by:

- * dominant SOEs;
- * restrictions on access to land;
- * strict investment policies;
- * limits on equity control;
- * regulations on profit repatriation; and,
- * foreign exchange controls.

While it is possible to broker deals between governments and individual firms that will circumvent these constraints and allow an investment to move forward, the continued existence of a highly regulatory policy environment, coupled with infrastructural and institutional problems, will limit the direct and indirect beneficial impact such a brokered investment will have.

Another factor which has complicated the approach taken by Sub-Saharan African governments towards private enterprise has

been the ethnic factor. Historically, some of the most successful entrepreneurs have not been Africans but immigrants.

During the colonial period, small but significant communities of non-African entrepreneurs came to play an important role in marketing. The most notable groups are:

- * the Lebanese communities of West Africa, and
- * the Asian communities of East and South Africa.

These groups have been active in agricultural input and output marketing and processing, but their most important role in marketing has been as the retailers of the (incentive) consumer goods which farmers buy with their disposable income.

At independence, when African governments sought to increase indigenous participation in economic activities, non-African ethnic groups became an easy target of discriminatory government policies and practices.

In West Africa, many Lebanese businesses (including processing industries) were nationalized and private traders had to compete with state-sponsored marketing agents, both cooperatives and marketing boards, which received subsidies in the form of higher marketing margins or lower interest rates on credit received from public financial entities. These policies effectively drove most Lebanese firms out of marketing in rural areas and gradually confined them to the wholesale import trade in urban areas.

In East Africa, nationalization and other more direct government actions caused most Asian businesses to close or to be taken over by Africans, not all of whom were competent business managers. These policies reduced competition in the marketing systems and contributed to the decline in the availability of goods and services in rural areas.

Finally, instead of building on the indigenous marketing systems which often transcend national boundaries, government policies have effectively impeded their performance.

The large number of diverse cultural and linguistic groups within most countries and the importance of trust, credit and the enforceability of contracts in economic transactions has contributed greatly to the formation of ethnic monopolies and traders' associations.

While these trading associations are usually ethnic-based, some are also trans-ethnic, such as the Mourides (Muslim religious brotherhood) of West Africa.

Regional trading associations are common throughout Africa and they have existed since precolonial times. Indeed, the contemporary presence of Fula-speaking peoples throughout the Sahel, the ubiquitous presence of the Serahuli and Jola people throughout the Senegambia-Guinea River basin region, and the wide settlement of Swahili-speaking peoples throughout East and Central Africa is testimony to the widespread influence which these trading diasporas have had in their respective regions.

When the borders of most African states were established in the colonial era, the territories of many similar cultural and ethnic groups were arbitrarily divided. People who had formed an integral socio-economic community found themselves separated by national borders and subject to a variety of regulations which limited their economic cooperation. This gave rise to illegal or parallel marketing activity along the borders of African states, organized along ethnic lines. Despite the legal impediments to their activities, these marketing groups still seem to operate efficiently.

Indeed, while private sector marketing agents have been pushed out of most official export crop marketing activities, they still exert considerable influence in informal or parallel markets for export crops.

Empirical studies indicate that where the private sector has been able to operate freely, such as in tree crops in Kenya, coarse grain marketing in West Africa, and horticultural or livestock marketing in other countries, the marketing systems function fairly well and remain relatively efficient.

The Gourmanche territory straddles the borders of three states: Burkina Faso, Ghana and Togo. The markets of Fada N'Gourma in Burkina Faso and Gambaga in Ghana attest to the cross-border economic unity of the Gourmanche. Maize and rice from Ghana are sold in Burkina Faso in order to get hard currency. There is also a flourishing parallel market in animals. Burkina Faso's export tax of 13 percent 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 in the exchange rates of bordering countries. In Ghana, merchandise is transported mainly in trucks and then transferred to bicycles for the border crossing. During a single market day about 730 bicycles were counted moving across the border into Burkina Faso.

By discriminating against the private sector, African governments have inhibited the development of broad-based indigenous entrepreneurial classes and competitive marketing systems.

E. Donor Support of Agricultural Marketing

Although the growth of public sector marketing institutions was accomplished by African governments, it could not have been achieved on such a large scale without implicit donor support. During the 1960s and the 1970s, the major bilateral and multilateral donors implicitly accepted the dominance of public sector institutions and worked directly with or through them in support of agricultural marketing activities. There were few programs or projects designed to change the policy environment or the structure of African economies until the early 1980s.

There have been four major shifts in the approach taken by both governments and donors towards the agricultural sector since the 1960s. These are as follows:

Phase One: Initially, most government development strategies emphasized stimulating growth in the non-agricultural sectors. African governments were more concerned with political integration, infrastructural development and human capital development than agricultural production.

Within agriculture, the emphasis was on export crop production and marketing, a legacy of the colonial period. The donors supported these goals. In the agricultural sector donors provided technical and financial assistance for research and extension activities, irrigation, and infrastructure oriented towards export crops.

Phase Two: The 1973-74 drought marked a change in the levels and patterns of development assistance to Africa. The rise in world market prices of cereals and the depletion of world food stocks heightened concern among the donors about the increasing vulnerability of developing countries to international fluctuations in food supplies and intensified interest in expanding Africa's food production capacity.

African governments responded to the rapidly rising price of food crops relative to export crops by resolving to achieve domestic food self-sufficiency. The new approach to the agricultural sector involved a change in emphasis from the production and marketing of export crops to basic domestic food crops. From the mid 1970s through the early 1980s, donor assistance levels rose annually in real terms on a per capita basis and as a percentage of GDP and government expenditures.

Phase Three: During the 1980s, a third shift in development strategy took place. The new approach emphasized the importance of making structural changes in the economy, especially through policy reform.

This approach involved "getting prices right," rationalizing the public sector, and encouraging the production and marketing of export crops to earn the foreign exchange needed to meet Africa's large debt obligations. This approach is generally associated with the release of the Berg Report (1981) by the World Bank because it established the arguments underpinning the IBRD's structural adjustment programs.

Phase Four: Since the late 1980s, there has been a growing awareness that structural changes were a necessary but not sufficient condition to improved market performance and economic growth. This current period is one marked by the explicit efforts of designers and implementers to achieve balance or equilibrium. Manifestations of this trend include the World Bank's renewed relative emphasis on project assistance and A.I.D.'s efforts to integrate Non-Project Assistance with Project Assistance and P.L. 480 resources to achieve often cross-cutting strategic objectives.

One conclusion which emerges from this overview is that until recently both Sub-Saharan African governments and the donors have tended to take an "either-or," approach to the agricultural sector. Donor programs and African government policies have emphasized either export crop or food crop production and marketing.

This dichotomy is reflected especially in strategies for national food security, with food self-reliance associated with export crop promotion (i.e. use foreign exchange earned from exports to import food), and food self-sufficiency associated with intensified domestic food production. There has not been a comprehensive, integrated approach to the agricultural sector promoting the balanced development of both export and food crops.

A review of multilateral and bilateral donor activities for the 1960s and 1970s reveals that while there was not an explicit donor policy regarding parastatal organizations, the implicit policy was one of fairly uncritical acceptance of SOEs and their role in the economy. There was no attempt to foster the development of a competitive marketing system. Indeed, quite the opposite effect was achieved.

Providing large amounts of assistance to public sector entities, especially working capital and equipment on very soft terms, the donors gave SOEs an unfair competitive advantage over their private sector marketing counterparts. This forced many

otherwise efficient private marketing agents from the market and increased the de facto monopoly power held by the public sector over many marketing systems.

In the long run, this had a deleterious impact on the links between rural farming households and the rest of the economy. Public marketing agents tended to focus only on input and output marketing whereas the small private traders who were displaced by SOEs had also handled the important retail trade in (incentive) consumer goods with farmers. Hence, the displacement of the middlemen traders by public cooperatives and parastatal marketing agents disrupted the flow of goods between urban and rural areas.

There were other deficiencies in the approach taken by donors during the last three decades. Many donor projects focused on improving or replacing marketing infrastructure (e.g. storage sheds, processing plants, transport facilities and vehicles, etc.) rather than on institutional or legal changes which would encourage more efficient use of the existing hardware. While investment in infrastructure was and is appropriate, investment in infrastructure alone will not yield the desired impact as demonstrated by the number of "white elephants" strewn throughout the African country side.

In addition, most donor projects took a very static approach to marketing and were not market-responsive. Donors tended to support the marketing of one crop for an "assured" market. Yet, when the relative prices changed, and farmer and private trader behavior changed accordingly, these projects were unable to respond. Indeed, many donor projects attempted to continue the crop focus in the face of market pressure against the crop.

Finally, there were few attempts to learn more about and penetrate the specialty markets for each commodity in order to secure a niche and expand the volume of trade accordingly.

F. Case Studies

Both A.I.D. and the World Bank have recently completed comprehensive and critical reviews of agricultural development activities. These case studies illustrate several important themes which were mentioned in the foregoing analysis. The studies evaluate the historical experiences of six Sub-Saharan African countries: Senegal, Cameroon, and Nigeria in West Africa, and Kenya, Tanzania and Malawi in East and Central Africa.

The general conclusion of these studies is that despite differences in resource endowments, Cameroon, Kenya and Malawi have had higher rates of agricultural growth than Senegal, Tanzania and Nigeria because they had more sound macroeconomic and sectoral policies than the latter.

The governments in Cameroon, Kenya and Malawi have relied on the agricultural sector as the basis for sustained development. Promoting agricultural growth had the effect of increasing the rate of growth in other sectors so that growth in the whole economy was high. As a result, agriculture's share of total GDP actually decreased in Cameroon, Kenya and Malawi. Conversely, where policies discriminated against agriculture, such as in Tanzania, agriculture increased as a portion of GDP; that is, the rate of growth for the whole economy was low.

Moreover, Kenya and Malawi are the only countries in the sample that expanded world market shares for major export crops; all others lost shares. In Tanzania there was a shift away from export crops to food crops, especially among smallholders, concurrent with a rise in parallel marketing of all crops, but especially maize, to Kenya in exchange for consumer goods which became scarce in Tanzania.

Ironically, despite increases in maize production in Kenya, Tanzania and Malawi, all three countries increased food imports and received more food aid. Malawi was a maize exporter in most years, perhaps due to a lack of effective demand at home which was the result of the skewed land and consequent income distribution pattern. The growth of food imports in Kenya may reflect the opposite trend; there may have been a more dynamic internal demand for maize and wheat because of broad-based income growth. Tanzania's unsound policies led to a growth in food imports and an increased need for food aid.

Cameroon's agricultural performance improved but it was still unimpressive relative to Kenya and Malawi. Palm oil, cotton and robusta coffee exports expanded while all other exports stagnated. Rootcrops, sorghum and millet production kept pace with population growth and rice production expanded from a small base. Rice imports also increased, reflecting rapid growth in demand caused by urbanization, income growth, and implicit subsidies on consumption.

Nigeria lost its share in world markets and became a net importer of crops such as edible oils and cotton. Production of food and root crops kept pace with population growth but not with the increased demand resulting from rapid urbanization and income growth. Indeed, food imports (wheat, rice and maize) continued to rise rapidly until Nigeria declared a ban on such imports in 1986.

Senegal's agricultural sector also stagnated, though with substantial year-to-year fluctuations. Production gains for many crops were made by bringing more land under cultivation. Drought-resistant varieties of groundnuts helped arrest declines in production during drought years. In per capita terms,

however, domestic food production declined. Simultaneously, government policies encouraged the consumption of imported rice instead of domestic coarse grains. This resulted in rising food imports.

These case studies illustrate that macroeconomic and sectoral policy decisions are critical in determining rates of growth because they affect how governments used the resources available to them. Public investment decisions influence the level of taxes and subsidies on production and consumption that governments apply in order to implement and maintain development activities.

Most countries have attempted to diversify their economies through their development investment programs. There were attempts to diversify:

- * out of agriculture and into industry and construction;
- * within agriculture in favor of import-substitution food crops; and,
- * by small producers into opportunities outside traditional and controlled activities (informal market).

The macroeconomic policies of each country had a significant impact on agricultural sector performance, especially over-valued exchange rates which led to substantial implicit taxation of export agriculture.

- * Only Kenya and Malawi adjusted their exchange rates regularly.
- * Senegal and Cameroon could not adjust their exchange rate because the CFA franc is pegged to the French franc.
- * Tanzania and Nigeria consistently over-valued their currencies.

In Tanzania, this implicit taxation was accompanied by explicit taxes on coffee during the coffee boom of the 1970s.

In Nigeria, producer price subsidies for export crops did not adequately compensate farmers for the overvalued exchange rate.

Only Kenya refrained from imposing significant explicit taxes on its two important export crops (coffee and tea) by allowing international market forces to be reflected in the domestic price structure. Kenya also offered the same price to

smallholder producers as to estate farmers, which encouraged growth in market-oriented production.

Malawi's smallholders, however, could only grow a certain type of tobacco and were forced to sell to an SOE at an officially fixed price, while estates could grow varieties of tobacco and sell it at auction. This policy put an implicit tax on smallholders of about 50 percent.

Most countries, except Kenya (and Malawi for estate grown crops), had officially fixed prices for export crops and the structure of producer prices moved in favor of food crops. This occurred despite the increase in food imports in these areas and regardless of whether food markets were controlled as in East Africa, or free as in West Africa (with the exception of rice).

Hence, government policies which affected the relative price structure contributed significantly to the shift from export to food crops in all countries except Kenya.

The case studies also confirm that factors other than prices exert an important influence on agricultural marketing.

The relatively easy access of Kenya's small farmers to good quality research, extension, credit, and marketing channels for inputs, handling, processing and information is of special

Many of the successes of Kenya smallholder agriculture, especially coffee, tea and dairy products, are the result of the inheritance of British institutions and policies. Kenya's smallholder coffee cooperatives and the Kenya Tea Development Authority (KTDA) are recognized to be among the most effective smallholder institutions in the provision of services for export crops. Their clientele includes an unusually high proportion of politically conscious and vigilant smallholders, which reflects the general grassroots development of Kenya's commercial and political institutions. It is difficult to quantify the relative importance of these factors compared to price as determinants of efficiency and profitability of particular crops, but there can be no doubt that they have had a positive impact. Other factors which have contributed to the success of the KTDA are: (1) an ability to maintain organizational autonomy; (2) control over its own resources and applying them to the most critical tasks at hand; (3) operational accountability which provides staff with the necessary incentives; and (4) economic incentives to producers through a direct link between world market prices and farmgate prices.

significance, especially when compared to the access and quality of services available to farmers in Tanzania, Malawi or Cameroon.

Kenya's farmers have good access to quality services because the influence of technocrats in policy planning and policy decisions is stronger in Kenya (and Malawi) than most other African countries. In addition, the institutions that serve Kenya's farmers are representative of them.

One of the keys to Kenya's success has been that the philosophy of harambee has given impetus to strong grass roots involvement of farmers in making their needs heard. These factors have improved the incentives for farmers to produce for the market. As a result, coffee, tea and maize yields are two to four times higher in Kenya than they are in Malawi, Cameroon and Tanzania.

The experience of cotton farmers in Cameroon also illustrates that price levels are not the most important determinant of crop production and marketing levels, but that institutional arrangements and infrastructure play a key role, too.

Cameroon's producer prices for cotton were substantially lower than Kenya's, Malawi's or Nigeria's prices throughout the 1970s (in nominal and real terms), although the bulk of Cameroon's cotton is of higher quality. Despite relatively low producer prices, cotton yields in Cameroon were 4 to 8 times higher than Kenya or Tanzania.

Cameroon's cotton success is similar to Kenya's smallholder coffee and tea success in that a public sector agency, SODECOTON, offered excellent services to farmers. It also had connections to international research done by the French in West Africa. By providing quality services to farmers, SODECOTON ensured that cotton marketing increased which raised its revenue. Moreover, unlike many SOEs in Africa, SODECOTON actually paid farmers at harvest time. (This situation changed in 1986 when, as world market prices were falling, the Government demanded that SODECOTON maintain artificially high producer prices while undertaking more development services in cotton growing areas. The result was serious financial troubles for SODECOTON.)

These studies illustrate that there is no single solution to the complex issue of price policy. Donors and governments need to consider the individual crop production possibilities for specific countries and design the appropriate balance of policies.

For example, while high levels of export taxes on crops can effectively lower the producer price paid to farmers, the costs to the farmer of the tax may be compensated for by government

expenditures that directly or indirectly support agriculture, such as by providing farmers better access to research, technology, inputs, and information.

In addition, there may be instances in which a price stabilization strategy may be appropriate. Annual crops may benefit from price stabilization more than tree crops because:

- * annual crop prices and yields tend to vary more than those of tree crops, which increases farmer's risks and uncertainties;
- * most annual export crops are of lower relative value than tree crops at international prices so that returns to factor use tends to be less attractive compared to competing food crops, making switches from annual export crops to annual food crops more likely; and,
- * fluctuations in production are also more pronounced for annual crops than tree crops, and this may affect capacity utilization in downstream processing activities, such as groundnuts in Senegal or cotton in Kenya.

Hence, a price stabilization policy may help ensure a reliable supply of the commodity by permitting increased use of purchased inputs. Raising the capacity utilization of processing facilities may reduce processing margins and allow for higher producer prices.

There has been a significant difference among the agricultural investments made by various African governments and their marketing results.

East African countries diversified food crop production by investing in sugar, a crop for which they possess some comparative advantages. As a result, they successfully increased their share of world market trade in that commodity.

West African countries have invested heavily in irrigated rice production for which they possess no comparative advantage.

Most West African countries face serious foreign exchange constraints and irrigated rice production has large foreign exchange requirements, especially compared to traditional food crops such as coarse grains. In addition, the unit production costs of irrigated rice in West Africa are very high compared to Asia and the high internal transport costs of shipping rice to urban centers results in a continuing need for subsidies, some as large as 100 percent at current international rice prices. These schemes also have high recurrent costs, such as for technical assistance to manage them.

Yet, African governments and donors continue to fund these unsound agricultural investments. Scarce resources and skilled personnel might be better applied to improving existing crops for which there is a comparative advantage.

Instead of continuing to invest in irrigated rice production in the Fleuve, Senegal might make better use of its resources by investing in peanut production under improved technology in the Casamance, a crop for which it has a proven comparative advantage. However, this is an area where political factors, namely a concern for national food security (i.e. self-sufficiency), may be more important than economic issues of efficiency.

These studies also illustrate that subsidy policies have had adverse effects on marketing results. Implicit subsidies have been given through overvalued exchange rates, and explicit subsidies have been given to goods such as imported rice and fertilizer. The resultant distorted prices created a rising demand for imported rice, a falling demand for domestic coarse grains, and wastage and misuse of fertilizer.

Kenya has been the least reliant on explicit subsidies on fertilizers, removing them in 1977, while Nigeria and Tanzania have subsidized it the most. Most countries also have subsidized agricultural interest rates at one time or another.

However, as a recent synthesis of A.I.D. rural credit project evaluations concluded, subsidizing interest rates and providing targeted credit or credit in-kind to farmers created more problems than it solved. Primarily, subsidy programs have failed to address the key liquidity and technology constraints which smallholder farmers face.

III. AGRICULTURAL MARKETING SYSTEM ELEMENTS

Agricultural marketing systems are composed of three basic elements: (1) the macroeconomic and sectoral policies and regulations that affect marketing activities; (2) the infrastructure that is necessary for marketing activities to take place; and, (3) the participants that engage in marketing activities, especially agribusinesses.

For analytical purposes, the variables which affect the competitiveness and efficiency of agricultural marketing systems are considered within these three broad categories.

A. Government Policies and Regulations

Given the natural resource base and climate, agricultural prices are the major determinant of what will be produced and marketed and what technologies will be used in production and marketing.

In a perfectly competitive market, prices are determined solely by the market forces of supply and demand. However, in most countries of the world, including those of Sub-Saharan Africa, prices are not determined solely by the market; they are influenced by many other variables, the most important of which is government policy.

Government policies have a major influence on the degree of competition in agricultural markets. The political orientation of African governments often determine the nature of national economic policy. For example:

- * Authoritarian regimes tend to take a highly centralized and regulatory approach to economic matters.
- * Democratic governments tend to take a liberal approach to economic affairs.

The colonial legacy of Sub-Saharan African nations has also had an influence on government policies.

For example, in many Francophone states, the central government maintains rigid control over political and economic matters with little authority vested in local government. In such countries, government policies are very statist oriented, with heavy reliance on the public sector, especially SOEs, to

operate and manage those economic activities considered strategic or in the national interest.

In many Anglophone states, governments have liberal, market-oriented policies, especially for trade. However, because of the current economic crisis in Africa, these generalizations may be less accurate than they were a decade ago. For example, Ghana has an authoritarian regime that has adopted one of the most liberal policy reform programs on the continent. Nevertheless, the political structure and colonial heritage of African states continues to exert a strong influence on government economic policies.

The government policies which have the greatest influence on agricultural marketing results are:

- * pricing policies (which includes the exchange rate, tariff and tax rates, and subsidies);
- * fiscal and monetary policies; and,
- * trade policies.

In addition, government regulations and their enforcement (such as import quotas, licensing requirements and the laws which relate to marketing activities), also have a significant affect on the efficient operation of agricultural marketing systems.

1. Pricing Policies

Pricing policies tend to be either flexible and market-determined or controlled in some way. Under a liberal policy regime, the government would take a laissez faire approach, and allow the market forces of supply and demand to determine prices (such as in the "perfectly competitive" market).

Very few countries in Sub-Saharan Africa, or the rest of the world, have completely laissez faire pricing policies; all governments intervene either directly or indirectly to influence some prices. What is important to note, therefore, is to what extent government price policies distort the market forces of supply and demand and thereby either encourage or discourage agricultural marketing activities.

* THE EXCHANGE RATE:

Governments influence all prices in the economy by macroeconomic policy decisions. Governments control prices either directly, by setting the price for specific commodities, or indirectly, by using other price-related policies. The most

important price policy decision a government makes is how it determines the price of its currency (the foreign exchange rate).

Under a *laissez faire* policy, the local currency would float against other hard currencies, such as the US dollar or UK pound sterling, allowing the market forces of supply and demand for local currency and foreign exchange to determine the relative price. Very few regimes in Sub-Saharan Africa can afford such a policy because they have limited sources of foreign exchange earnings.

Nevertheless, many governments in Anglophone Africa tend to rely on market signals in setting the exchange rate. This minimizes distortions in markets and allows market signals to reach producers so that they can allocate their scarce resources as efficiently as possible.

However, most Francophone nations belong to the CFA franc zone, whereby their exchange rate is pegged to the French franc at a 50:1 ratio. As the French franc moves against other hard currencies, so does the currency of the Francophone states move. This removes a significant amount of control over prices from Sub-Saharan African governments which belong to the CFA franc zone. These states must rely on other mechanisms, especially tax rates, to influence prices in accordance with macroeconomic policy goals.

The exchange rate, or the price of a country's currency, is a very important factor in agricultural marketing because it strongly influences the ability of a country to realize its comparative advantage.

An over-valued exchange rate essentially penalizes farmers and constrains marketing because:

- * it lowers the price of imports of agricultural commodities which may compete with domestic production;
- * it simultaneously raising the price of agricultural exports, making them less competitive in world markets; and,
- * it inflates wages and makes it difficult to use labor-intensive methods of production and marketing.

When the foreign exchange rate reflects the market forces of supply and demand, the price of domestic exports on world markets tend to be low but farmers' earnings of local currency units are high, and there is more incentive to engage in marketing activities.

Given the difficulty of adjusting the exchange rate in CFA franc nations, another method to foster competitiveness would be to improve land and labor productivity, two key factors that determine comparative advantage.

*** TAX POLICY:**

Another important determinant of prices is government fiscal policy, especially tax rates. Taxes, such as import duties and export tariffs, traditionally have been an important source of revenue for African governments.

However, setting export taxes too high can adversely affect exports either by making their price on world markets relatively too high or by lowering the price paid to farmers and thereby discouraging marketing.

Similarly, import duties on agricultural inputs can adversely affect marketing (and production) by making the inputs too expensive for most farmers to buy and use, or by raising output prices as the effects of high input prices are passed back from farmers through traders to the consumers.

Therefore, in setting import and export duties, it is important for governments to encourage production and marketing of those commodities for which the country has a comparative advantage.

*** SUBSIDY POLICY:**

Government fiscal policy regarding subsidies also influences prices and affects marketing. Subsidies influence production and consumption decisions by farmers and consumers, such as urban wage-earners.

Over the short-term, subsidies can be an effective tool to promote the production and marketing of new crops or the use of new technologies.

Over the long-term, however, subsidies distort the market forces of supply and demand and they have a cumulative deleterious effect on government budgets because they are not sustainable.

Subsidies oriented towards urban consumers have a severely negative effect on domestic production and marketing. Subsidizing urban food consumption (usually of imported cereals, such as rice or wheat in Africa) discourages domestic production and marketing of those grains or other foods which could be substituted for the imported commodity.

Subsidizing marketing functions also gives unfair advantage to those entities being subsidized and distorts the free play of competitive market forces. Ultimately, such a policy will drive out of the market those entities not being subsidized and result in inefficient markets as the remaining marketing entities come to depend on the subsidies to cover their costs.

*** MONETARY POLICY:**

Government monetary policy also influences prices and affects marketing.

The interest rate on savings and loans is an important factor in determining how resources are allocated in marketing decisions. Artificially low interest rates discourage domestic savings (resource mobilization) and encourage borrowing (spending), which has an inflationary effect on the economy if allowed to continue over the long-term. In addition, these policies can result in capital flight, as investors move their savings to higher yielding investment markets.

Similarly, government decisions to interfere with the market forces of supply and demand by allocating credit to specific borrowers or activities will tend to result, over the long-term, in inefficient use of that credit and financial problems for the institutions handling the credit programs.

Recently completed impact evaluations of five A.I.D. rural credit projects in Sub-Saharan Africa indicate that subsidized and targeted credit schemes are not sustainable either in terms of production and marketing results or in terms of the financial solvency of the institutions serving the rural sector. The results also indicate that allowing interest rates to be market determined will give the appropriate signals to savers and borrowers and help ensure that there is some balance between the demand for and the supply of credit.

*** TRADE POLICY:**

Agricultural marketing is greatly affected by government trade policy. Government policies which encourage trade, especially imports and exports, implicitly will encourage agricultural marketing activities. Trade policy is affected by the government's exchange rate policy, the tax structure (especially tariff rates), and commercial regulations. Indeed, there is perhaps no other marketing activity over which governments exert so much control as that of commerce.

One of the most significant constraints to the growth of trade in Africa is the legal and regulatory barriers to regional (cross-border) trade within Africa. Traditionally, peoples engaged in different but complementary economic activities

throughout Africa have engaged in regional commerce. Coastal, riverine and lacustrine peoples have traded fish products with savanna or forest peoples who harvest livestock and poultry products or cereals, fruits and vegetables.

Some analysts argue that even if trade barriers were removed, most African states produce the same commodities as their neighbors and therefore, regional trade opportunities within Sub-Saharan Africa are limited. However, there is strong evidence that such arguments are specious.

The existence of active, albeit illegal, cross-border trade throughout Africa indicates that even within the same region (such as the West African coastal states), there are certain areas that have a comparative advantage in the production of specific commodities. This applies not only to agricultural production, per se, but also to the whole range of agricultural marketing activities that takes place during the marketing process. Indeed, despite the existence of such barriers, private agribusinesses are beginning to make their own trading arrangements with neighboring states.

The Nigerian Export Promotion Council organized a trade exhibition of Nigerian products in Accra from October 31 to November 4, 1990. Closely following that, the Ghana Chamber of Commerce, the Association of Ghana Industries and the International Trade Center organized a buyer-seller meeting between the Ghanaian manufacturers of food processing equipment and the Nigerian entrepreneurs who wanted to import such machinery. Deals worth approximately \$300,000 were made between the Nigerian and Ghanaian agribusinesses. At the conclusion of the meetings, the Nigerian and Ghanaian businessmen urged their respective governments to reduce the barriers to trade between their two countries.

2. Policy Administration and Regulations

Having sound economic policies is not enough to promote efficient and competitive agricultural marketing systems. Policies must be translated into actions by the enforcement of rules and regulations by government officials. Indeed, 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.

For example, a government policy may liberalize cereal marketing by deregulating the de jure monopoly which an SOE held

in cereal trade. However, the trade will not be effectively liberalized if there are still rules which limit entry into the market.

Regulations which limit the participation of private agribusinesses in marketing activities include:

- * requirements that traders or businesses be licensed;
- * high costs for license fees;
- * numerous eligibility requirements (e.g. tax certification, business registration) for applying for a license;
- * special permits to move certain quantities of commodities, even after being licensed; and
- * quotas on the amount of goods that may be traded or processed and sold.

There may also be domestic barriers to trade which are not even addressed by the macroeconomic policy change, such as the ability of a provincial authority to assess its own tax on cereal traders. Therefore, to ensure the ultimate success of policy reform programs, close attention should be paid to the effective administration of the rules and regulations that relate to the subject marketing activity.

Regulations which limit or control entry to the market effectively drive up the costs of marketing and result in inefficiencies in the marketing system. In addition, quotas on either imports or exports distort the market forces of supply and demand by artificially regulating the supply of goods.

For example, in West Africa, restrictions on the export of domestically produced cereals (e.g. millet and sorghum) has often resulted in excess domestic supplies, which pushes local prices down and ultimately discourage further production for market. Alternatively, restrictive marketing regulations has driven surplus production into parallel markets from where it has been exported to neighboring countries. While this may bring some immediate gains to the traders involved, it encourages inefficiencies in the agricultural marketing system and has a net negative impact on economic growth and development.

Given the thin nature of most African national markets, it would seem appropriate that governments give more attention to encouraging exports rather than discouraging them, and strive for food self-reliance rather food self-sufficiency.

*** THE LEGAL SYSTEM:**

The legal system (and the impartial enforcement of the law) is another important factor affecting the development of competitive, efficient agricultural marketing systems. Marketing

ANNEX B

STAGES OF AGRICULTURAL MARKET DEVELOPMENT

Table 1: The Driving Forces in Agricultural Marketing System Development

Table 2: Factors Associated with the Stages of Development of Agricultural Marketing Systems

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Table 1: Agricultural Marketing System -- Driving Forces

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Income	Very low levels. Undifferentiated in rural areas.	Low but some differentiation in rural areas. Rising urban middle class.	Emerging urban class with purchasing power. Rural incomes rising, with increasing differentiation.	Increasing incomes and wealth spread throughout rural areas. Fewer, larger, more economically viable farms remain in rural areas.	High incomes and standard of living prevail. Consumers willing and able to pay premium prices for convenient goods and services.
Urbanization	Low level. Most people live in rural areas.	Still at low level, but rising urbanization. Largest cities begin to grow rapidly.	Outside of growing major cities, secondary or market towns thriving.	Cities continue to grow though at lower rate than in Stages II, III. Population growth rate levels or declines.	Most people live in cities, though population is diffused in many primary and secondary cities.
Technology	Pre-Industrial.	Limited use of improved technology in agricultural production and marketing.	Improved production and marketing technology has become widely used. Most land sown to high-yielding varieties and farms use fertilizer and agro chemicals. Improved storage and processing techniques. Refrigeration (and cold storage) become widespread.	Virtually all farms used improved seed, fertilizer and agro-chemicals. Post-harvest handling, processing, storage and distribution technology becomes larger scale and more efficient. Export crop technology meets highest intl. standards.	State-of-the art technology prevails in agricultural production, post-harvest handling, and other functions. Computers assist in determining optimal crop or feed mix, inventory levels, and firm financial/marketing management.
Industrialization	Artisans produce agricultural implements and a limited range of consumer goods.	Some local manufacture of farm implements, low-tech processing units and consumer goods, though on a small scale.	Increasing industrialization. Expanded scale in manufacturing farm implements and machinery. Processing machinery manufactured. Fertilizer mixing plant. Assembly and maintenance of cold storage units.	Go beyond assembly and fertilizer mixing plants to full-scale industrialization. For most part, country achieves a scientific and industrial base.	Scientifically advanced, industrial with many "post-harvest" elements. Micro-firms able to produce efficiently for niche-markets.
Legal Environment	Informal judiciary. No contract law or private ownership of land.	Judicial system in urban areas, but prone to influence peddling. Contract law not vigorously enforced. Insecure land tenure.	Secure land tenure and private land markets emerge. Contract law increasingly well-enforced. Judicial system becomes stronger and less prone to manipulation.	Strong judiciary system provides checks and balances to executive and legislature. Property rights, contract law, torts become increasingly well developed.	Strong legal system consolidated. Environmental and food safety issues come to fore; strict penalties for firm non-compliance with regulations. Legal advances also in biotechnology and patent law (intellectual property rights).
Market Organization	Small, atomistically competitive firms with circumscribed trading activities.	Increasing scale of some firms, particularly in wholesale trading.	Scale and concentration increases in wholesale trading and processing. Less efficient, smaller-scale competitors struggle. Small retailers provide goods conveniently which are in high demand.	Scale and concentration increases in performance of other marketing functions (e.g. retailing). Small-scale, inefficient operators disappear, except where able to provide greater convenience utility.	High degree of concentration typically emerges in food processing, trading and distribution. Mergers and buyouts become commonplace during food industry consolidation.
Transport Infrastructure	Underdeveloped. Many rural areas not served by roads. Trunk roads dilapidated. Few all-weather roads. No railroads. Few airstrips. Small, non-mechanized ports.	Trunk road grid extended. Expanded rural road network. Limited rail and air transport between key points/cities. Ports can accommodate larger vessels, but operations are non-mechanized.	All-weather roads penetrate farther into rural areas. Feeder road network becomes better developed. Rail and air networks expand. Ports can accommodate ocean going vessels carrying containers. Intl. air freight capacity expands.	Transport infrastructure becomes well-developed and maintained. Trunk roads improved. Entry/exit to urban areas facilitated. Rail, airstrips and ports improve.	Paved roads serve most rural areas. Toll roads charge user fees for maintenance. Rail systems used to transport grain and bulky commodities. Airport and ports achieve state-of-the-art.

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Table 1: Agricultural Marketing System - Driving Forces

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Income	Very low levels, Undifferentiated in rural areas.	Low but some differentiation in rural areas. Rising urban middle class.	Emerging urban class with purchasing power. Rural incomes rising, with increasing differentiation.	Increased incomes and wealth spread throughout rural areas. Fewer, larger, more economically viable farms remain in rural areas.	High incomes and standard of living prevail. Consumers willing and able to pay premium prices for convenient goods and services.
Urbanization	Low level. Most people live in rural areas.	Still at low level, but rising urbanization. Largest cities begin to grow rapidly.	Outside of growing major cities, secondary or market towns thriving.	Cities continue to grow though at lower rate than in Stages II, III. Population growth rate levels or declines.	Most people live in cities, though population is diffused in many primary and secondary cities.
Technology	Pre-Industrial.	Limited use of improved technology in agricultural production and marketing.	Improved production and marketing technology has become widely used. Most land sown to high-yielding varieties and farms use fertilizer and agro-chemicals. Improved storage and processing techniques. Refrigeration (and cold storage) become widespread.	Virtually all farms used improved seed, fertilizer and agro-chemicals. Post-harvest handling, processing, storage and distribution technology becomes larger scale and more efficient. Export crop technology meets highest intl. standards.	State-of-the art technology prevails in agricultural production, post-harvest handling, and other functions. Computers assist in determining optimal crop or feed mix, inventory levels, and firm financial/marketing management.
Industrialization	Artisans produce agricultural implements and a limited range of consumer goods.	Some local manufacture of farm implements, low-tech processing units and consumer goods, though on a small scale.	Increasing industrialization. Expanded scale in manufacturing farm implements and machinery. Processing machinery manufactured. Fertilizer mixing plant. Assembly and maintenance of cold storage units.	Go beyond assembly and fertilizer mixing plants to full-scale industrialization. For most part, country achieves a scientific and industrial base.	Scientifically advanced, industrial with many "post-harvest" elements. Micro-firms able to produce efficient for niche-markets.
Legal Environment	Informal judiciary. No contract law or private ownership of land.	Judicial system in urban areas, but prone to influence peddling. Contract law not vigorously enforced. Insecure land tenure.	Secure land tenure and private land markets emerge. Contract law increasingly well-enforced. Judicial system becomes stronger and less prone to manipulation.	Strong judiciary system provides checks and balances to executive and legislature. Property rights, contract law, torts become increasingly well developed.	Strong legal system consolidated. Environmental and food safety issues come to fore; strict penalties for firm non-compliance with regulations. Legal advances also in biotechnology and patent law (intellectual property rights).
Market Organization	Small, atomistically competitive firms with circumscribed trading activities.	Increasing scale of some firms, particularly in wholesale trading.	Scale and concentration increases in wholesale trading and processing. Less efficient, smaller scale competitors struggle. Small retailers provide goods conveniently which are in high demand.	Scale and concentration increases in performance of other marketing functions (e.g. retailing). Small-scale, inefficient operators disappear, except where able to provide greater convenience utility.	High degree of concentration typically emerges in food processing, trading and distribution. Mergers and buyouts become commonplace during food industry consolidation.
Transport Infrastructure	Underdeveloped. Many rural areas not served by roads. Trunk roads dilapidated. Few all-weather roads. No railroads. Few airstrips. Small, non-mechanized ports.	Trunk road grid extended. Expanded rural road network. Limited rail and air transport between key points/cities. Ports can accommodate larger vessels, but operations are non-mechanized.	All-weather roads penetrate farther into rural areas. Feeder road network becomes better developed. Rail and air networks expand. Ports can accommodate ocean going vessels carrying containers. Total air freight capacity expands.	Transport infrastructure becomes well-developed and maintained. Trunk roads improved. Entry/exit to urban areas facilitated. Rail, airstrips and ports improve.	Paved roads serve most rural areas. Toll roads charge user fees for maintenance. Rail systems used to transport grain and bulky commodities. Airport and ports achieve state of the art.

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Table 1: Agricultural Marketing System -- Driving Forces

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Communications Infrastructure	No electronic communications outside capital city.	Telephone service between major cities. Capital city has limited international telephone and telex capacity.	Domestic and international telephone service improves. Intl. telephone and telephone/fax linkages strengthened. Telecommunications in major cities.	Telephone service penetrates into most rural areas. International telecommunications network deepened; secondary towns integrated into it.	Telecommunication networks penetrate into rural areas. Telex, fax, express mail systems well-developed. Car telephones/faxes.
Electricity & Water	Electricity only available in one or few cities. It's unreliable and unavailable part-time. Pumped municipal water supply available in few cities. Sewage and waste disposal systems undeveloped in major cities. Water raised by hand or with animals in rural areas.	Electricity, municipal (pumped) water and sewage/waste disposal systems expand to other major cities. Water raised increasingly by motorized pumps in rural areas.	Electricity and municipal (pumped) water systems expand to secondary market towns. Sewage and waste disposal systems developed. Some rural areas, particularly those near cities, become electrified. Water raised by motorized pumps in many rural areas.	Rural areas electrified, and water systems improved. Electricity capacity strengthened to accommodate industry and refrigeration requirements.	National electrification achieved. Pumps or urban authorities meet water requirements. Increasing attention to water contamination and quality.
Government Role in Marketing	Limited involvement in marketing system and little capacity to enforce policies and regulations.	Limited government regulation of food system and enforcement capacity. Government may set up marketing boards for export crops and grain.	Government regulation of input and product markets improves. Unfair trading practices and misrepresentation penalized. Government able to ensure compliance with minimal food hygiene regulations. Grades and standards developed and applied.	Government regulation continues to improve., particularly investigation of anti-competitive practices. Grading system vigorously enforced, but may change to accommodate tastes and preferences. Food safety becomes a high priority.	Government improves capacity to regulate food industry and utilities. Concern over increased concentration, environmental externalities, food safety and truth in advertising and labeling.
Financial Institutions	Predominantly informal. Savings groups and local moneylenders are key financial intermediaries.	Commercial banks lend to larger agro-entrepreneurs. Informal finance still predominates in rural areas and for smaller firms with few assets (as collateral).	As private land ownership expands, larger farmers are able to borrow from commercial or agr. credit banks. Smaller agro-enterprises are also able to use the formal financial sector, which deepens and broadens its asset base and lending capacity. Financial links with foreign countries, including currency convertibility are strengthened.	Formal financial institutions become stronger, more diversified and deeper. Informal financial arrangements of decreasing importance. Longer term loans for farms, processors, traders requiring investment capital becoming increasingly available.	Farms and firms able to use commodity exchanges and future markets in commodities and currencies to manage risk. Financial system well-integrate into global financial markets.

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Table 2: Agricultural Marketing System -- Associated Factors

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Input Markets					
Seed Industry	Farmers retain seed. No government or commercial multiplication distribution.	Government produces foundation seed in limited quantities and usually multiplies seed. Improved seed usually only available through government seed service or development projects.	While government continues to produce foundation seed, commercial seed firms and specialized contract multipliers emerge. Large numbers of farmers use improved seed.	A vibrant seed industry develops which is able to screen, test and develop improved varieties. Private firms increasingly produce foundation seed, and they use contract multipliers extensively.	Private firms, often with government or university support, improve seeds and plant material through biotechnology, which shortens the testing, multiplication and diffusion cycle.
Fertilizer Distribution and Use	Farmers rely on manure, crop residues and burning to maintain fertility. Little use of inorganic fertilizer.	Fertilizer used on cash crops, particularly export crops. It is often supplied by parastatal organizations responsible for export marketing. Limited use of fertilizer on staple crops (i.e. grains, tubers, legumes).	Fertilizer is used increasingly on staple food crops, particularly grains. Fertilizer application is often below optimal levels, and farmer knowledge of the benefits of alternative formulations may still be limited. Fertilizer is distributed by commercial firms in many rural areas.	Farmers use higher levels of fertilizer. Their knowledge of alternative formulations, timing and methods of application expands. They increasingly buy in bulk from wholesale dealers. Dealers provide informal extension services with fertilizer.	Farmers are very knowledgeable about fertilizer attributes and requirements for different soil types. Soils are systematically tested for deficiencies and to compensate through fertilizer application. Some farms practice "organic" agriculture in response to environmental and soil erosion problems. Hence fertilizer requirements are reduced.
Agro-chemical Distribution and Use	Not available or used.	Limited use of agro-chemicals, except on cash crops. Little use of phyto-sanitary products in storage or transport.	Farmers begin to use agro-chemicals widely on field crops and crops in storage. Veterinary inputs are also widely used and available, generally from public animal health agencies.	Virtually all farms use agro-chemicals. Use of phyto-sanitary products for crops stored on the farm or commercially has become widespread. Private practices supplant government agencies in distributing veterinary drugs and providing veterinary services.	Farmers are very knowledgeable about pests and parasites. Many practice integrated pest management, reducing the need for chemical treatments. When pest problems get out of control, government agencies step in to provide widespread spraying and treatment programs.
Agricultural Equipment	Farmers practice hand-hoe agriculture. Very limited animal traction. Farm implements produced by artisans using scrap metal.	Farmers associated with export marketing boards are able to obtain animal traction and equipment on favorable terms. Traction not widespread outside of these programs.	Animal traction is increasingly widespread and has diffused spontaneously. Rural and secondary town artisans manufacture and repair equipment. There are active traction animal and equipment sales and repair services. Farmers use animal traction or non-motorized machines to produce outputs on the farm.	Farm operations are increasingly mechanized, using motorized tractors, tillers, harvesters, processing units. Higher-level processing takes place off the farm, and farmers buy back processed products for consumption.	Farm operations are heavily mechanized. Larger farms make huge investments in agricultural machinery. Smaller farms rely on custom hire mechanized units to perform key operations.
Labor Markets	Inter-household labor exchange predominates in rural areas. Virtually no agricultural wage labor.	Informal agricultural wage labor markets emerge. Premium wages paid during peak agricultural periods. Apprenticeship system prevails in marketing and transport.	Agricultural wage labor becomes an important source of farm labor. It is often full-time, rather than part-time peak-season labor. It often comes (or is recruited) from distant depressed rural areas. As marketing and processing firms grow, they hire more full time employees.	Farm ownership and management/labor become increasingly separate functions. Permanent hired labor is supplemented by peak season labor during peak periods, such as harvesting. The seasonal labor may be imported from other countries. Marketing and processing firms hire more full-time, skilled laborers, technicians and managers.	As farms become increasingly capitalized, capital and labor are hired together to perform peak season farm operations. Agribusinesses compete with other industries and services in competitive, national labor markets for skilled laborers, technicians and managers.

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Output Markets					
Post-Harvest Technology	On-farm storage and processing. Storage is artisanal and unimproved typically high losses. Unmechanized, labor intensive handling and processing methods.	Short-term commercial storage generally without use of insecticides. Government agencies often perform the longer term storage function on a large-scale. Emergence of small-scale mechanized food processing.	On-farm storage methods improve significantly and losses drop correspondingly. Insecticides and fumigants become widely used. Producer knowledge of harvesting and handling techniques improves, especially for perishable commodities. Marketing agents improve capacity to handle and store commodities.	Post-harvest handling practices continue to improve, especially for higher-valued, perishable commodities, as well as become more mechanized. Pre-cooling and cold storage become widely-used in perishables marketing. Large-scale commercial storage of staples improves greatly.	Post-harvest handling methods become state-of-the-art in order to satisfy increasingly exacting consumer demands. Precooling, shrink wrap in the field, mechanized sorting and grading, standardized cartons and containers, palletization and fork-lift handling of all types of produce are among the major post-harvest handling methods.
Processing	Generally limited to processing for immediate household consumption. Processed products not storable or traded.	Small-scale, commercial food processing emerges. Processing done on a custom basis.	Larger, more efficient processing units emerge, as marketable surplus expands and producers rely on commercial rather than on-farm processing.	Processing units increase scale and efficiency. Processed fruits and vegetables are widely consumed. Much greater convenience is embodied in processed foods, which are ready to eat or cook. Packaging becomes more attractive and important for sales.	Processing facilities are able to operate much of the year at high levels. Processing machinery can be adapted for several related uses. As demand for fresh fruits and vegetables expands, processed output may decline per capita (except for frozen produce).
Predominant Trader Types	Household to household trade predominates. Some part-time rural traders. Few wholesale traders in urban areas.	Urban wholesale traders begin to dominate trade in staple crops. They typically work through commission agents or associated rural assemblers.	Increasing specialization takes place in trading. Scale increases, particularly for wholesalers and processors.	Large-scale wholesale firms trade a broader array of products and are able to supply the needs of grocery stores and other retail outlets. Small-scale, inefficient firms disappear, except where able to provide convenience. Increasing scale in retailing.	Vast, integrated food conglomerates perform assembly, processing, storage, wholesaling and retailing functions. Mergers and acquisitions lead to increased concentration and scale.
Spatial Organization of Markets	There are a few periodic, localized markets drawing from circumscribed areas.	The number and size of periodic markets expands. These serve increasingly as bulking points in staple crop trade. Market hierarchy begins to emerge.	A well-articulated market hierarchy develops, with vibrant, high-volume urban wholesale markets in large cities.	Multiple wholesale markets serve large cities, and the variety of retail outlets proliferates. Produce is increasingly assembled on the farm or brought to warehouses or grain elevators directly by farmers. Periodic markets performing assembly and retail functions disappear.	Wholesale markets in central cities disappear, and are replaced by direct shipment of food products from suppliers to end users. Supermarkets and warehouse stores become the chief retail outlets for urban and suburban consumers. High incomes and the increasing value of time create expanded opportunities for convenience stores and fast food outlets.
Grades and Standards	High degree of product heterogeneity. Limited income differentiation among	Informal grades and standards are applied by the private trade, although they are not always consistent.	Governments intervene in markets to develop clear, universal grades and standards. Public health concerns become important. Grading schemes reflect previous informal grades used by private trade. Governments begin to apply and enforce standards.	Uniform market measures and weights are universally applied, and violators are sanctioned. Grading schemes become more subtle and differentiated, reflecting higher income levels and greater variety of tastes and preferences (backed by purchasing power).	Grades may change as consumer preferences and health concerns change (e.g. beef grades, fluid milk in U.S.)

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Table 2: Agricultural Marketing System -- Associated Factors

Driving Forces	Stage I	Stage II	Stage III	Stage IV	Stage V
Coordination and Exchange Mechanisms	Informal exchange. Virtually no active coordinating institutions or agents.	Spot markets, characterized by wide supply and price fluctuations, predominate. Traders are required to personally inspect lots of produce.	Increasing use of formal contracting arrangements by producers, processors, and exporters. With the emergence of uniform grades and standards and warehouse receipts, personal inspection of warehouse lots is no longer necessary.	Market coordination becomes more dynamic and precise. Auction markets, commodity exchanges and in some cases futures markets replace spot markets. Electronic marketing is introduced. The food industry becomes more vertically integrated.	Market coordination becomes increasingly precise with the advent of computerized inventory tracking systems and excellent communications. Contracting arrangements, vertical integration, and the use of commodity and currency futures markets predominate.
Risk-Reducing and Sharing Mechanisms	None other than farmer investment in livestock and reciprocal social relations in rural areas.	Market brokers or facilitators assess credit-worthiness of marketing agents and extend short-term credit. Traders turn over stocks rapidly to avoid losses associated with adverse price movements while staples in storage. Informal moneylenders charge high interest rates to offset high risk of borrower default.	Contracts with price, quantity and quality guarantees and provisions for handling production shortfalls and price fluctuations become an important risk-sharing mechanism. Longer term commodity storage becomes a form of speculation. Banks spread risk by lending to farmer organizations.	Producers, processors, wholesale traders and exporters/importers use forward deliverable contracts and hedging to minimize risks. Crop insurance schemes or other farm income guarantee programs emerge. Other government programs may help to spread the risk of overseas agricultural investments (e.g. OPIC).	Farms and firms able to use commodity exchanges and futures markets in commodities and currencies to manage risk. Financial system well-integrated into global financial markets. Private insurance companies willing and able to insure against wide range of risks.
Market Information	Limited and localized. Disseminated by word-of-mouth.	Private market information networks develop, where traders have superior knowledge to producers. Governments may begin to provide limited, but typically not very timely market news.	More reliable, widely disseminated information on production, stocks, trade volumes and prices becomes available and is used by producers and marketing agents in their marketing decisions. Prices printed in newspapers or broadcast over radio.	Up-to-date public information is widely available and used. Private information services develop to meet the demand of the private commodity traders, who need high quality and current market information rapidly and are willing to pay for it.	With increasing domestic concentration in the food industry and as more food products are transferred privately within vertically integrated systems, public information may become less representative and timely. National and global supply and trade information becomes widely available and critical for trading decisions in international markets.
Marketed Surplus	Incidental and unplanned. Determined primarily by weather.	Larger, better-equipped farms develop a more commercial orientation and produce most of the marketed surplus. Irrigated farms may produce such of surplus.	Most producers develop a commercial orientation. Production of a marketed surplus is planned. Most farm production is sold, so this surplus becomes the primary source of farm income.	Farmers sell essentially all of their output and buy processed, ready-to-cook foods in rural or small town retail outlets.	Corporate superfarmers sell all of their output.
Marketed Share of Value Added	Low marketing margins for most products, which move short distances and have little value added.	Marketing margins begin to rise, especially for food products transported long distances or stored for some time.	Although costs of performing particular marketing functions decline, gross marketing margins continue to increase as more value is added in the marketing process.	Farmers capture a smaller share of the consumer expenditure, as time, form and place utilities are added to agricultural products. As scale and efficiency expand, unit costs for performing specific marketing functions continue to decline.	As consumers demand more and more convenience and eat more of their meals away from home at food establishments, farmers capture a small proportion of the consumer dollar.

ANNEX C

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arrangements often involve contractual relationships of one kind or another. In addition, they involve property rights.

These rights, obligations and relationships must be enforceable through the legal system, usually the courts, or there will be no effective means to ensure that order is maintained in the marketing system. If the judicial system is not impartial and expeditious in dealing with claims arising from disputes related to contractual obligations or property rights, it will have an adverse effect on the cost of marketing and the efficiency of the agricultural marketing system.

B. Marketing Infrastructure

Given a firm resource base, reliable weather, and a sound policy environment, an efficient agricultural marketing system requires that there be physical markets and complementary facilities at which market participants, such as agribusinesses, can perform their marketing functions. The infrastructure necessary for agricultural marketing may be classified as either hard infrastructure (physical structures) or soft infrastructure (financial and informational services which enhance the effectiveness of market participants' activities).

Examples of hard infrastructure include:

- (1) roads;
- (2) railroads;
- (3) market centers;
- (4) storage centers;
- (5) port (cargo) facilities;
- (6) airport (cargo) facilities;
- (7) river transport facilities;
- (8) electric power facilities;
- (9) water supply facilities; and,
- (10) sorting, grading and processing facilities.

Examples of soft infrastructure include:

- (1) postal services;
- (2) telecommunications services;
- (3) radio services;
- (4) market information services; and,
- (5) financial services.

The infrastructure necessary for efficient agricultural marketing is determined to a great degree by a country's resource endowments and by the number and location of market participants.

Most Sub-Saharan African countries have thin markets; that is, there are a relatively small number of producers and consumers dispersed over a large territory with rather limited

purchasing power because of low incomes. Indeed, nineteen of the world's poorest twenty-five countries, in terms of GDP, are located in Africa.

Therefore, an extensive, rather than an intensive, marketing infrastructure which reaches many producers and consumers at the lowest possible cost might be the best way to achieve economies of scale and to capitalize on any inherent comparative advantage in production and marketing capacity.

In general, low levels of infrastructural development will raise the costs of marketing whereas highly developed marketing infrastructures can help keep marketing costs low. With their relatively small populations dispersed over large territories, most Sub-Saharan African nations are heavily dependent on the transport system to move agricultural produce (inputs and outputs) over long distances to places where it can be stored, and then dispersed or combined and processed. The transport network is also needed to ensure that incentive consumer goods reach farmers.

Reliable, all-weather transport, including good primary and secondary roads, and auxiliary transport networks, such as waterways and railways, are components of the transport system. Transport is difficult and expensive in Africa, more so than other parts of the developing world, because the roads are inadequate and poorly maintained and there are insufficient national and regional communication networks to direct and coordinate transport.

Storage facilities are important at all levels of agricultural marketing systems. Marketing agents need pest-resistant and weather-resistant storage facilities to keep agricultural inputs (e.g. pesticides, fertilizers, improved seeds) and outputs (e.g. cereals, vegetables, fruits) in good condition.

Storage facilities are needed at the farm level and in local as well as regional trading centers. Certain crops, such as horticultural exports, also require refrigeration facilities, especially at collection and export points. Collection, storage, refrigeration and processing facilities also require reliable sources of water and electricity.

The dearth of marketing infrastructure and the poor condition of what does exist has had a deleterious impact on agricultural marketing development in Africa. Seasonal price fluctuations are often excessive for certain crops because there is a lack of physical infrastructure which would permit the flow of food among regions with different seasonal patterns.

National communications networks, which are usually under government control, do very little to collect and disseminate useful marketing information to producers, consumers and all market participants. On the other hand, flows of information between private sector market participants, such as private trading networks, are often rapid, accurate and comprehensive.

The fundamental problem with private information networks, however, is precisely that accurate information on real prices, commodity flows and other market conditions carry with it significant market power. Without countervailing access to equally good market information from public and/or neutral private sources, both producers and consumers outside of existing networks can be placed at a significant disadvantage in market negotiations.

Financial institutions have an important role to play in the development of efficient agricultural marketing. Access to a full range of financial services improves the ability of all market participants to perform their functions effectively.

Financial institutions help to mobilize savings that can be used to improve the marketing system, such as by funding investments in new technologies or new infrastructure.

Formal and informal savings associations can make both seasonal production credit and medium-term trading credit available to farmers and traders, respectively.

As agricultural marketing systems become more sophisticated and more integrated into the world market, their financial requirements change as well.

For example, traders operating on thin margins need to have access to sophisticated financial services such as futures, options and currency swap markets to allow them to hedge their risks. (In recent years commodity markets have become, in some respects, financial markets rather than product markets. In a competitive export market, the trader's net margin may be only a few percentage points of the product price and may easily be wiped out by movements in world prices and/or the exchange rates within a few days or weeks. In these circumstances, traders need to hedge risks.)

Regulatory agencies, usually associated with government services, also contribute to the development of efficient agricultural marketing systems. These entities ensure that acceptable grades and standards are enforced for all commodities circulating through the marketing system.

Monitoring the grade and standard of inputs helps ensure that farmers get the appropriate inputs needed to maximize

productivity and marketable surplus. Regulating the grades and standards of agricultural outputs helps to ensure that farmers receive a premium price for high quality produce and that the best product is delivered to processors for transformation and forward sale to the consumer.

Maintaining high quality grades and standards for commodities being sold in international markets is especially important if Sub-Saharan African nations are to reap the highest benefits possible from their comparative advantage.

Two important issues regarding market infrastructure are:

- * who should pay the (investment) costs associated with building the hard infrastructure or providing the soft infrastructure?
- * who should pay the (recurrent) costs associated with the maintenance of the infrastructure?

There are no easy answers to these questions. Often, the initial investment needed to build hard infrastructure (e.g. a port or airport facility, regional market center, or roads), will have been undertaken by the government because few private marketing agents will assume the risks nor the start-up costs associated with such a significant endeavor. This is especially true for those aspects of the infrastructure which transcend agricultural marketing functions and have national or strategic functions as well, such as roads, port facilities, airports, communications networks, and water and electric power generation.

However, this does not preclude private investors from making additional investments in infrastructure which can complement what has been done initially by the government. For example, private companies should be encouraged to build power generation facilities, to supply transport services, to invest in communications, and to build facilities for the collection, grading, sorting, storage and processing of agricultural commodities. In addition, the marketing of incentive consumer items to producers, which is such an important aspect of a fully developed agricultural marketing system, is usually left in the hands of private marketing agents.

Improving the marketing infrastructure is an important method to improve the performance of the agricultural marketing system. However, improved performance is also closely linked with how the facilities and services are used. Market participants must have good organization, appropriate motivation, sound management, and sufficient human skills in order to maximize the utility of the marketing system infrastructure.

C. Agribusiness and Other Market Participants

Participants in the agricultural marketing system include both social groups, such as farmers, consumers, traders, market administrators, and policy makers, as well as organizational entities, such as agribusiness firms, marketing cooperatives, marketing boards, chambers of commerce, market research institutes, export promotion councils, and agencies responsible for regulating grades and standards of commodities in the marketing system.

Farmers are producers supplying the marketing system with outputs but they are also consumers of inputs supplied by the marketing system as well as the consumer (incentive) goods which are transformed during the marketing process.

Private traders are involved in all aspects of commerce associated with the agricultural marketing system: moving, storing and distributing agricultural inputs, and collecting, storing and transporting agricultural outputs.

Cooperatives engage in various marketing activities, such as transport, sorting, grading, storage and processing of produce.

Parastatal marketing boards, or SOEs, also engage in many different agricultural marketing activities, including the transportation, distribution, collection and storage of produce, and processing and packaging of agricultural products.

Private firms, defined as agribusinesses, engage in many of the same activities both domestically and internationally through links with world markets.

Government agencies which promulgate and enforce policies and regulations that affect agricultural marketing activities are also participants in the marketing process.

One way to improve the efficiency of agricultural marketing systems is to improve their competitiveness. This involves increasing the ability of private sector marketing agents, especially agribusinesses, to engage in more activities. Encouraging competition will allow market forces to determine which agents are best suited to engage in specific marketing activities. Encouraging competition will lead to specialization and this will also improve marketing efficiency.

In comparing public marketing agents and private marketing agents, some advocates of state intervention argue that because markets are not perfectly competitive they cannot be relied upon

to allocate resources equitably. Hence, they argue that governments must intervene in markets, through policies and regulations and/or through public marketing agents, to ensure equity.

However, this approach begs the key question, which is:

- * To what degree should we rely on imperfect markets or imperfect governments to allocate resources and promote development?

Since the 1950s, the countries which have experienced the most growth, in Sub-Saharan Africa and the rest of the developing world, have relied on imperfect markets, not imperfect governments. The strategies which have been the most successful, generally, have involved:

- (1) keeping inflation under control by pursuing prudent monetary and fiscal policies;
- (2) promoting exports by refraining from discrimination against export crops and export marketing agents;
- (3) keeping the economy open to foreign competition, in order to promote internal efficiency;
- (4) maintaining competitive markets and market-determined domestic prices instead of replacing them with marketing boards monopolies and fixed prices;
- (5) allowing financial systems to provide adequate returns to savers; and,
- (6) giving the private sector a large role in deciding where savings should be invested.

The successful countries have had governments which supported private enterprise directly or indirectly and, at a minimum, did not go out of their way to undermine or impede private business in any way. Indeed, arbitrary and capricious government practices and policies have done much to discourage private investment throughout Sub-Saharan Africa.

Maintaining stable government-business relations will contribute to the creation of a climate in which business feels secure enough to invest, take risks and grow.

This suggests that it is prudent to encourage governments to do the things which they are best suited to do, and to allow the private sector to engage in the marketing activities which it is best suited to do.

One of the most important marketing functions which only the government can perform is to ensure that there is a favorable policy and regulatory environment which offers incentives to agribusinesses and other private firms to invest in marketing activities. The government should ensure that the policies, laws

and regulations which relate directly and indirectly to agricultural marketing activities are simple and transparent and impartially enforced.

Therefore, the cost of maintaining an effective legal system is public money very well spent. This involves the development and promulgation of rules that define property rights, contracts, limited liability, bankruptcy and so on, and enforcing those rules impartially.

Public spending on marketing infrastructure would also be worthwhile but stricter efficiency tests of that spending are needed and none of these tasks need be monopolized by the government.

One of the greatest obstacles to the development of stable government-business relations in Sub-Saharan Africa is the underlying suspicious attitude which government policy-makers have towards the private sector. Therefore, it is very important that the concept of value-added be stressed. Indeed, by definition, marketing is a process during which value is added at each stage in the process.

Many government policy makers fail to comprehend the important functions which agribusinesses perform because of three commonly accepted myths about the private sector:

- * First: The most prevalent myth is that private marketing agents are parasitic intermediaries. This ignores the fact that agribusinesses add value to agricultural produce by assembling, sorting and grading, handling, storing, transforming, and transporting commodities.
- * Second: The private sector is often characterized as collusive and oligopolistic. But, in fact, most empirical studies demonstrate that while private traders often cooperate with each other when their functions are complementary, in most cases there is competition. Moreover, although agricultural marketing costs may seem high in Africa, they are not high because of collusion or lack of competition among private firms, but because of some of the other factors already discussed above. Indeed, the relatively high costs of marketing reflect the real costs of doing business in Sub-Saharan Africa.
- * Third: It is a common misconception that private marketing agents receive excessive returns on trade and that this artificially inflates marketing costs. However, empirical studies show that marketing costs in Africa tend to be high because the real cost of assembling produce over dispersed areas is high. Indeed, one World Bank study estimates that more than half of the higher costs of agricultural marketing

in Africa, in comparison with marketing costs in Asia, are due to the inadequate marketing infrastructure, particularly the poor state of the roads and transport services.

Transporting produce over poor roads drives up maintenance costs. In countries with shortages of foreign exchange, spare parts may be in short supply, making it difficult for transport firms to keep their trucks on the road, further driving up the cost of doing business. High taxes on fuel imports and the shortage of foreign exchange to import sufficient fuel also drives up marketing costs.

Storing, processing, and distributing commodities are also costly operations, especially in large, thinly populated regions which are characteristic of most African countries. In addition, it is costly for private firms to tie up capital because of high inflation rates, the scarcity of credit and the high opportunity cost of capital.

Moreover, there may be excessive losses in the marketing process caused by inadequate packing, storage, grading, excessive moisture, and the like. The risks of doing business in Sub-Saharan Africa are high and the costs reflect this fact.

The efficacy of Sub-Saharan African agricultural marketing systems is directly determined by the competence and skills of the market participants.

Given the thin resource base and vagaries of climate in Africa, there can be little doubt that African businessmen and women generally know how to do business and how to survive in difficult times. Moreover, given the many policy and regulatory constraints which prevent or greatly restrict private marketing activities, the well-documented prevalence of lively informal sector marketing activities by private firms is strong evidence of the considerable entrepreneurial skill of African businessmen and women.

However, many market participants in most countries of Sub-Saharan Africa, whether they are marketing cooperatives, large SOEs or indigenous, private agribusinesses, still lack the technical (scientific) and managerial skills to build viable and dynamic agricultural marketing enterprises that can expand into new markets and exploit new technologies. Indeed, the generally low level of education and skills in Africa is a critical constraint to the development of efficient agricultural marketing systems.

Less than 50 percent of Sub-Saharan Africa's population is literate; numeracy rates are also modest.

- * Low literacy and numeracy rates makes it difficult for market participants to take advantage of market opportunities, such as new technologies or new crops.
- * Low levels of technical skills (especially in areas such as accounting and finance) inhibit the growth and often threaten the solvency of many public and private firms engaged in agribusiness.

Some African countries, such as Ghana, Nigeria, Cote d'Ivoire, Senegal, Uganda and Kenya, tend to have a higher level of skills and knowledge among the social groups and organizational entities that participate in agricultural marketing activities, than other countries. Therefore, some countries have different training needs than other countries, in terms of the kinds of skills and knowledge needed to improve their agricultural marketing systems.

Nevertheless, most social groups and organizational entities engaging in agricultural marketing activities in Sub-Saharan African could benefit from more dissemination of marketing technologies and information as well as more training in a variety of marketing skills.

Sub-Saharan African agribusinesses are constrained by the relative dearth of indigenous, successful agricultural technologies which can be utilized in marketing activities. For example, there is an urgent need to improve cereals storage and processing in the Sahel if domestic coarse grains are ever to compete successfully with imported rice in retail markets.

In addition, specialized marketing skills are necessary to exploit market niches based on the principle of comparative advantage, especially for international marketing. This involves a more sophisticated approach to marketing than has been utilized to date. Appropriate incentives for improving the quality of produce must be provided. Market participants need additional technical skills, managerial skills, and sophisticated marketing skills.

There should also be adequate attention to the sociological aspects of developing more efficient marketing systems. For example, levels of illiteracy and innumeracy tend to vary by gender, ethnicity and socio-economic status. The products circulating in certain marketing systems and the functions performed by certain market participants are often differentiated by gender as well as ethnic group. The organization of marketing systems is also affected by gender, ethnic affiliation and socio-economic status. In addition, access to capital, equipment, technology, and other resources can vary significantly by gender and ethnicity.

The types of training and skill development required to improve specific agricultural marketing systems will depend on the particular stage of development of that marketing system. (Section IV discusses the evolution of marketing systems and implications for interventions based on a model of stage of development.)

Both the public and the private sector in Sub-Saharan Africa need to improve their skills in order to promote more efficiency in their agricultural marketing systems.

The public sector needs to improve its ability to collect and analyze data at all levels. This includes macroeconomic, sectoral and microeconomic data. Collection and analysis of data at all levels is critical to the policy decision-making process. Information is needed about the costs of production at the farm level, the costs of transport and other factors contributing to total marketing costs, the volume of production of commodities produced and traded, and the like.

Skilled and adequately staffed analytical units are required in the government ministries concerned with marketing and price policies. These public administrative units should be complemented by private statistical and analytical businesses as well, in order to ensure that a system of checks and balances exist in the gathering and analysis of agricultural marketing information.

The public sector also need to improve their knowledge and skills so that they can perform their regulatory and administrative duties more effectively. In addition, the capability of both public and private research institutions or marketing entities (such as export promotion councils or chambers of commerce) to identify high value-added products, new technologies, and penetrate new market niches, needs to be strengthened.

The private sector requires training in a variety of skills relevant to doing business. The level and type of training will vary according to the social group as well as the size and type of marketing entity involved. Technical skills, such as accounting and financial management, need improvement in most firms in many countries in Africa. Marketing skills, involving the entire spectrum of marketing activities performed by private firms and social groups (such as packaging, processing, advertising, pricing, etc.), also need improvement.

IV. MARKETING STRATEGY CONSIDERATIONS

A. Comparative Advantage

Sub-Saharan Africa enjoys a comparative advantage in the production and marketing of many crops. Some of these commodities are produced primarily for sale in international markets, others are produced both for export and to meet domestic demand, and a few are produced and sold only in local or regional markets.

Among the primary products circulating through Africa's agricultural marketing systems are:

- * edible oilseeds (such as groundnuts, sesame, coconuts, and oil palm fruits);
- * tropical fruits (such as mango, papaya, avocado, pineapple, bananas, plantain, lime, orange and grapefruit);
- * vegetables (such as okra, karella, eggplant, tomato, onions, chili peppers, soybeans, cowpeas and squash);
- * cereals (such as maize, millet and sorghum);
- * spices (such as ginger, vanilla, cayenne, nutmeg, pepper and cloves);
- * coffee, cocoa, tea;
- * cotton;
- * roots and tubers (such as potatoes, yams, and cassava);
- * livestock and poultry and their by-products; and,
- * fish and shrimp.

While this list is by no means exhaustive, it indicates that there are a wide variety of crops which are being marketed by Sub-Saharan Africa.

As noted in Section II, many tropical African countries have recently lost their market share of world trade in some crops to other areas of the world.

However, many of these marketing problems are technical in nature and so the loss of market shares may only be temporary.

Therefore, in designing a marketing strategy, planners may want to consider taking a commodity systems approach that focuses on the marketing of specific commodities for which Sub-Saharan Africa has a comparative advantage. By improving the technical aspects of production and marketing, tropical Africa may be able to recover its share of the world market for those commodities for which it possesses a genuine comparative advantage.

Taking a commodity specific approach to agricultural marketing has several advantages. This approach breaks down the

traditional distinction which some analysts make between the various marketing functions, such as production, the actual buying and selling of the commodity, processing, and the establishment of marketing policies. A commodity systems approach encourages analysts to think in terms of the value added at each stage in the marketing process.

Taking a commodity specific approach does not mean that all resources will be directed to improve the marketing systems for only one or two commodities; far from it.

Attention to the technical requirements of each commodity must be balanced with attention to broader marketing issues which affect all crops circulating in the marketing system.

Indeed, there is often a complementarity among crops which can be built upon.

For example, infrastructure (e.g. roads, market places, communication networks, storage facilities, etc.) and services (e.g. financial, transport, etc.) which are developed to improve the marketing of one agricultural commodity can be used to improve the marketing of other commodities, too. And, as noted above, attention must also be given to the delivery of (incentive) consumer goods to producers.

Given the small size of most domestic African markets, a marketing plan should encourage export marketing. This involves not only traditional exports for the European market, but also the promotion of regional marketing within Africa itself. Indeed, historically there have been strong marketing links among African regions based on the exchange of commodities produced in their respective regions.

Studies in Mali illustrate that cotton farmers who secured access to inputs (animal traction equipment and fertilizer) were able to use those same inputs to increase coarse grain production and marketing. Moreover, the cash crop provided a stable source of revenue to capitalize the farm and to finance local infrastructure. Cotton farmers had cash to pay taxes in the post-harvest period and were not forced to sell their coarse grains at a time when coarse grain prices are at their lowest level, which is usually immediately following the harvest. Developing the domestic livestock industry is also a method to encourage the local demand for surplus production of coarse grains.

Export marketing can contribute to growth by:

- (1) improving the use of the factors of production over both the short and long-term, based on comparative advantage;
- (2) maximizing the investible surplus over the short-term which meets a necessary condition for maximum long-term growth; and,
- (3) linking production and consumption.

Export crops provide an important source of foreign exchange and income to many farmers. Indeed, a special feature of Sub-Saharan Africa is that small-scale producers account for the major portion of traditional export-oriented agriculture. The role of large-scale farmers is limited.

Plantations and large estates dominate the production of only a few crops, including sisal and rubber (primarily in East Africa), and tea and tobacco (in Central and East Africa). In general, plantations and large estate owners make their own marketing arrangements, often in collaboration with multinational firms.

However, small-scale export-oriented producers are unable to make their own arrangements. Hence, a marketing strategy which promotes export marketing for small-scale farmers can have a broad impact on incomes and development in the rural areas.

Recently, some African countries have tried to move away from the production of traditional export crops, especially primary products intended for European markets. This has been in response to the decline in world prices for many of these commodities and the desire of these countries to diversify their sources of foreign exchange earnings.

While African government and private sector-led efforts to diversify exports should continue and should be supported by donors, these efforts should not detract from efforts to improve the productivity of commodities for which tropical Africa has a proven comparative advantage. Indeed, given the great importance of a few primary products to the foreign exchange earnings of most tropical African countries (e.g. cocoa in Ghana and Cote d'Ivoire, peanuts in Senegal and The Gambia, coffee and tea in Uganda and Kenya), efforts to restore high levels of productivity and high levels of quality for these commodities must be vigorously pursued.

Moreover, given that the structure of many tropical African economies and marketing systems are oriented towards the production and marketing of primary products, strengthening and

improving the marketing systems for comparative advantage crops may be the most sound approach to take over both the short and the long term.

A sound approach to take towards traditional export crops would be to invest in the development of improved technologies to reduce the per unit costs of production, thereby maintaining their comparative advantage and increasing their competitiveness in world markets. Moreover, by increasing their ability to transform their products, African nations can increase the value added to the export commodity.

Critics of such an approach argue that once a country specializes in comparative advantage export crops, it enters a "staple trap" from which it is difficult to extricate itself. However, this staple trap will occur only where links to the rest of the economy are low.

This trap can be avoided by deliberately fostering the growth of private agribusinesses which can participate in the marketing process and add value to what is produced. Encouraging the growth of agribusiness marketing activity will create linkages between the agricultural sector and other sectors of the economy and foster diversified growth. Thus, the marketing of export crops can promote the economic transformation of a country.

This is not to imply that the marketing strategy should focus exclusively on export crops. The emphasis should be on all crops for which each country has a comparative advantage. But the incentives for production and marketing should be neutral between those food crops which tend to be sold in domestic markets and those which tend to be sold in foreign markets. There should be no discrimination in government policy against one crop or another.

Countries with a comparative advantage in specific crops should exploit it and attempt to add value to those crops during the marketing process. This will not only promote growth and higher incomes, but improve food security as well. Furthermore, by reducing the barriers to regional trade within tropical Africa, specialization can occur and this, too, will improve the efficient use of scarce resources.

The existing socio-cultural traditions and community ethos of Africa may also provide a foundation upon which a successful marketing plan can be built. African rural societies have traditionally cooperated in community development activities. This ethos of cooperation is based on the bonds of kinship as well as institutional relationships which unite different kinship groups, such as shared membership in an age-set, membership in

the same religious brotherhood, patron-client relationships and other socially integrative liaisons.

By building upon these socio-cultural relationships and indigenous institutions, the local people (the beneficiaries) may be encouraged and mobilized to participate fully in grass roots development efforts. This is especially important in activities such as the construction, maintenance, and rehabilitation of infrastructure (roads, market buildings, storage facilities) which is essential to efficient marketing systems.

However, it is also important in terms of mobilizing labor, capital and disparate skills in agribusiness based activities which can add value to what local farmers produce. By adding value to what they grow, rural households can increase their incomes and diversify the base of the rural village economy. Indeed, the more remote the area and the more financially constrained the national government may be, the more critical it is that such local grass root efforts are encouraged and promoted.

In addition, there is a tradition of democracy and representative consultations at the village level in Sub-Saharan Africa. By incorporating more people in the decision-making and implementation process, the chances for ultimate success of marketing interventions can be increased.

The degree of success of any development activity ultimately depends to a great extent upon the degree to which the local people commit themselves and make an investment in that activity. Where participation is high, when local people invest their energy, their labor and their cash resources, they have a direct stake in the final result of the activity and they will work as hard as possible to ensure its success.

B. The Evolution of Agricultural Marketing Systems

In examining the economic problems of developing regions, such as Sub-Saharan Africa, analysts often use models of development to indicate at which stage in the development process a particular country may be. Given that stage of development, there may be specific interventions or strategies which would be the optimal ones to pursue in order to help move the country forward to a more advanced state of development or a more productive range of activities.

While models of development are useful for comparative analytical purposes, analysts should be cautious and resist the temptation to classify countries according to rigid, inflexible qualities. Development is a dynamic process, during which there is constant change and adjustment, in which one sector of the

economy may move faster than another and be more advanced than another.

Similarly, agricultural marketing is a dynamic process and agricultural marketing systems are constantly changing in response to both exogenous and indigenous factors. Attempts to classify tropical Africa's agricultural marketing systems will only reflect what those systems look like at a particular point in time without reference to the changes which may be happening even as they are being studied.

Therefore, in analyzing agricultural marketing systems, it may be useful to examine some of the key characteristics which differentiate the various agricultural marketing systems for many of the commodities in Sub-Saharan African countries. Based on that analysis, it may be possible to suggest what the most sound investments are for each stage in the evolution of competitive and efficient agricultural marketing systems.

Sub-Saharan African countries may have agricultural marketing systems which are in different stages of development across regions and across specific crops or commodity systems.

For example, domestic coarse grain marketing systems may be poorly developed in relation to the marketing system for export crops. Alternatively, some regions of a country may be better served by roads and other marketing infrastructure than other regions of the country. Hence, any attempt to classify agricultural marketing systems and place them along a continuum of evolution will only be successful if it recognizes the important differences as well as the similarities that determine the competitiveness and efficiency of the marketing system.

The model described below suggests that agricultural marketing systems pass through five stages of evolutionary development.

The variables which propel the evolution of the marketing system from one stage to the next are described as driving forces. The driving forces can be classified as key economic indicators, institutional variables and infrastructural elements; they include levels of income, rates of urbanization, level of technology and industrialization, the legal environment, and so forth.

In addition, there are indicators which reflect at which stage in its evolution a marketing system may be. These indicators are associated with the input and output marketing process; they relate to the state of seed, fertilizer, and equipment distribution networks, the level of post-harvest technology, processing, market information networks, and the like.

The driving forces and factors associated with each stage of market development are also laid out in two tables in Annex B.

The evolutionary continuum, ranging from Stage One to Stage Five, is described below.

1. Stage One:

- * The policy and regulatory environment does not provide adequate incentives to farmers to produce marketable surplus nor to private businesses to engage in marketing activities such as collection, storage and processing of commodities.
- * The marketing infrastructure is dilapidated or inadequate.
- * Marketing institutions and the services available through both public and private institutions (e.g. financial, regulatory), are rudimentary and unsophisticated, possibly even restrictive.
- * Among the market participants, SOEs tend to dominate, especially in commerce.
- * Private marketing agents tend to be small in scale and undercapitalized, and they tend to turn their stocks over as rapidly as possible.
- * Many producers focus on meeting their own household food security requirements through producing for themselves (i.e. food self-sufficiency), rather than producing for markets. However, most producers generally sell small quantities of staple foods immediately after the harvest in order to meet cash requirements.
- * The country is poorly integrated into world markets.
- * Most agricultural commodities circulate only in local trading networks and inter-regional trade is difficult and costly.

As noted above, it is difficult to characterize national marketing systems as being definitely in only one stage of development. Nevertheless, the various agricultural commodity systems found in several Sub-Saharan African countries tend to be more at a Stage One level of development than any other, such as Guinea-Bissau, Central African Republic, and because of disruptions caused by war, Angola, Somalia, Ethiopia and Sudan. Other countries may have marketing systems that are poised to move from this stage to the next stage of market development. These countries may include Chad, Guinea Conakry, Tanzania and Zaire.

2. Stage Two:

- * The policy and regulatory environment is being liberalized.
- * The country has a rudimentary extensive marketing infrastructure to which some improvements are being made so that it serves a majority of farmers.
- * The marketing institutions and the services offered by them are slowly improving, reaching more producers and involving more marketing agents.
- * Among market participants, the private sector is competing more intensively with public marketing agents.
- * Specialization in marketing activities is beginning to take place at each stage in the marketing process (e.g. transport and storage).
- * Most farmers still process staple foodstuffs for their own household consumption.
- * Progressive farmers emerge, bringing more land under cultivation, applying more inputs to the land, and selling a greater portion of what they produce.
- * Inter-regional trade in domestic staple commodities has emerged and links with the international economy are becoming stronger.
- * Trading networks for consumer goods, especially imported manufactured items, emerge alongside input and output marketing networks.

These conditions are found in many commodity marketing systems in most Sub-Saharan African countries. Agricultural marketing systems in countries such as Mali, Niger, and Zambia may tend to resemble stage two in market development.

Other countries, such as Cameroon, Ghana, The Gambia, Togo, Zimbabwe and Uganda, may be classified as being poised to move from this stage to the next stage of evolutionary development.

3. Stage Three:

- * The policy and regulatory environment becomes more liberal, providing a broad range of incentives to the private sector to invest and expand the scope of their agricultural marketing activities.

- * The infrastructure is well maintained and regularly rehabilitated so that it serves the vast majority of producers and consumers in all markets.
- * The marketing system institutions and services, both in the public and private sector, are becoming stronger and serving a broader spectrum of market participants.
- * The government begins to enforce rigorously formal grades and standards (weights and measures) for agricultural produce, especially commodities destined for export markets.
- * Contract law is enforced impartially.
- * Viable formal sector financial institutions emerge to serve the needs of agricultural marketing agents.
- * Formal associations begin to emerge for farmers, traders, processors and other marketing agents.
- * Private land markets may begin to emerge.
- * Market participants become increasingly specialized in their activities, with a simultaneous rise in the scale of the performance of agricultural marketing functions by the private sector.
- * More processing of commodities is being done off the farm by private agribusinesses, as the opportunity costs to farmers for processing their own produce rises prohibitively high.
- * More opportunities for off-farm investment and employment open up.
- * Vibrant wholesale markets with significant demand pull emerge to serve the needs of a large and growing urban population.
- * Trade between neighboring countries and distant markets increases, with fuller integration into world markets.
- * Integrated commodity systems emerge which build on the complementary activities associated with the production and marketing of commodities for which the country possesses a comparative advantage.

There are a few African countries which have commodity marketing systems that have entered this stage, such as Kenya and Cote d'Ivoire. Agricultural marketing systems for specific commodities in Senegal, Nigeria, Malawi and Botswana also could be characterized as beginning to resemble this stage in their market development.

4. Stage Four:

- * The policy and regulatory environment has created an open, liberal, free-market economy in which there are attractive incentives which encourage domestic and foreign investment in marketing activities, including agro-processing industries.
- * Direct foreign investment expands.
- * The Government assumes a largely regulatory role in the marketing process. The government monitors commodity trading and the quality of inputs and outputs assiduously.
- * The infrastructure creates stronger links between national and international markets. Domestic and international communication networks have improved so that they facilitate wider inter-regional and international trade.
- * Among market institutions, formal financial institutions become far more important than informal financial entities in meeting the capital requirements of marketing agents.
- * There are increasing strong institutional links with international markets for several commodities, including traditional exports of primary products.
- * Among market participants, there is an increase in specialization and efficiency as marketing agents engage in economies of scale.
- * Specialized, large-scale agribusinesses increase their role in the marketing process. Agribusinesses dominate wholesale marketing of inputs and outputs and either support or directly provide extension services for selected high-value commodities.
- * Rising rural incomes generates a rising demand for consumer goods in rural areas.
- * Commodity systems become characterized by contractual arrangements, such as contract farming, and they become more vertically integrated from producer to consumer.

There are probably not any agricultural marketing system in Sub-Saharan Africa which have completely reached this stage of market development, although some specific commodity marketing systems in a few countries, such as Kenya (for tea), may exhibit many of these qualities.

5. Stage Five:

- * The policy and regulatory environment promotes investment and competition in marketing activities.
- * The infrastructure and services, especially that related to transport, is sophisticated and well-maintained. It links even the most remote production zones with export markets and domestic urban consumers.
- * Producers and traders are linked to agricultural marketing companies through sophisticated telecommunication networks, including world markets.
- * Market information is widely available through public and private information networks and it is used in production and marketing decisions.
- * Farmers understand and use more sophisticated financial instruments and commodity futures markets to protect their investments.
- * Market participants, especially agribusinesses, have the skills, technology and resources to perform their functions efficiently and effectively.
- * The most current technology is used in agricultural production, transport, processing, storage, and input and output marketing.
- * The agricultural marketing system is organized and operated in a scientific and industrialized fashion.
- * The entire agricultural sector is highly industrialized.
- * A relatively low percentage of the population is employed in the on-farm agricultural sector and farm holdings have become relatively more consolidated units.

There are no Sub-Saharan African agricultural marketing systems which are at this stage in their evolution.

Given the relatively low stage of development that characterizes most commodity marketing systems in Sub-Saharan Africa, there are specific actions that should be taken in order to promote sustained growth. These are discussed, relative to the particular stage of development, in the following section.

C. The Role of A.I.D. In Agricultural Marketing Development

Given the evolutionary process which agricultural marketing systems undergo, what is the most appropriate role for the Agency for International Development (A.I.D.) to take in that process?

Clearly, the first step which A.I.D. should take is to decide whether or not the Mission wishes to become involved in the agricultural sector. Not every Mission in tropical Africa is involved in the agricultural sector nor may every Mission decide, for a variety of reasons, to embark on an agricultural sector program.

For those Missions that undertake a Country Program Strategic Plan (CPSP), and based on their macroeconomic analysis of the development constraints, decide to become involved in the agricultural sector, further analyses of the agricultural sector will have to be carried out. One of the most important analyses which will be done for the agricultural sector is an analysis of the agricultural marketing system and the various commodity systems that comprise that national system.

The analysis should be conducted with as much participation as possible from host country officials, other donors, private businesses, and other public and private institutions and individuals that are involved in the agricultural sector.

Based on this analysis, the Mission will be able to determine what the host country government, the various donors, and the indigenous private sector are doing or can do to address marketing constraints. The Mission's choice of which interventions are necessary and appropriate will determine the type of activity that the Mission will undertake, i.e. a project or non-project activity.

The agricultural marketing system will be analyzed so that the Mission may identify and rank the constraints to the development of an efficient and competitive marketing system. Once the major constraints have been identified and analyzed, A.I.D. will be able to indicate what activities (e.g. support for policy and regulatory reforms, infrastructural investments, institutional development, training, etc.) are necessary and sufficient to remove those constraints.

The process of analysis and action should be an ongoing process. Removing one constraint may improve the performance of the whole marketing system but other binding constraints will emerge. Hence, A.I.D. should be engaged in an iterative and flexible process of identify constraints, prescribing actions, monitoring and evaluating the subsequent changes, and making new recommendations for additional activities. There is no single solution for the multitude of problems which constrain the

development of competitive and efficient agricultural marketing systems in Sub-Saharan Africa.

Although there is no single prescription which, if followed, would relieve all the constraints in the evolutionary development of agricultural marketing systems, there are some general guidelines which can be followed.

A.I.D. Missions in countries in which the agricultural marketing systems may be described as at STAGE ONE: should consider providing support to the following activities:

- (1) Improving the policy and regulatory environment so that it encourages marketing agents, including farmers, to respond to market signals which reflect the underlying supply and demand conditions for different commodities;
- (2) Improving the policy environment so that it offers incentives which encourage private entrepreneurship and investment rather than massive government intervention;
- (3) Improving the transportation and communications infrastructure;
- (4) Improving farm productivity and reducing post-harvest losses so as to increase marketed surplus;
- (5) Improving the analytical skills of the public sector through training so that policy and regulatory reform will be self-sustaining; and,
- (6) Improving public and private sector financial skills related to auditing and accounting for budgetary and regulatory purposes (public sector) and more sound business performance (private sector).

A different emphasis is required for commodity marketing systems which are at STAGE TWO. For those agricultural marketing systems, A.I.D. should consider the following types of activities:

- (1) Strengthening the policy, legal and regulatory environment so as to encourage private enterprise development and investment.
- (2) Encouraging governments to open marketing activities and markets to more competition.
- (3) Supporting more maintenance and rehabilitation of infrastructure rather than overambitious expansion of capacity.

- (4) Supporting improvements to the rural road networks especially, both to draw more farmers into producing for the market and to ensure that surplus production is encouraged by the delivery of consumer goods to farming households.
- (5) Assisting private firms, especially agribusinesses, to adopt new technologies, and organizational and managerial methods which can increase their efficiency.
- (6) Providing training in technical, managerial and financial skills for domestic agribusinesses in order that they may be in a stronger position to take advantage of emerging opportunities.
- (7) Providing training for technical skills related to quality control and investment promotion to both the public and private sectors.
- (8) Encouraging export trade, especially regional inter-African trade, by working with local governments and other donors at both the bilateral level and in multilateral organizations, such as ECOWAS and SADCC.

As African commodity marketing systems go through STAGE THREE and become better integrated into international markets and farmers become more commercially oriented, the nature of public interventions will also change.

For these agricultural marketing systems, A.I.D. Missions should consider giving priority attention to the following types of activities:

- (1) Supporting policies to improve and promote exports.
- (2) Encouraging the government to take the lead to ensure that uniform regulations relating to quality grades and standards are met for export and staple crops.
- (3) Strengthening the government's ability to regulate private input markets (e.g. seeds, fertilizers, chemicals), in order to assure competitiveness and minimize abuses.
- (4) Supporting the gradual expansion of the national marketing infrastructure and services. This involves delivery of electricity and water supply, telecommunications, sewage systems and waste removal, beyond the primary urban areas to secondary market towns.

- (5) Supporting improvements in the institutions and their services, such as financial institutions so that they will meet the more sophisticated needs of marketing agents. This involves services such as: letters of credit, ease in converting foreign and domestic currencies, and the means to hedge the risks inherent to foreign exchange and commodity markets.
- (6) Strengthening the national legal system so that it is more reliable and impartial in enforcing contracts strictly and sanctioning violators.
- (7) Assisting market participants identify specialty market niches and help orient marketing activities towards them.
- (8) Supporting market participants through the dissemination of improved technologies for marketing activities (including production), especially for high quality and attractive export crops.
- (9) In addition, if land markets emerge, assisting the government in its efforts to ensure land tenure for smallholder farmers and to facilitate and monitor land transactions.

A.I.D. has a comparative advantage in many of the activities cited above. Through the DFA, both project and non-project resources can be provided to Sub-Saharan African countries to promote broad-based growth, especially by strengthening the role of the private sector (agribusinesses).

Fundamental to this approach is policy reform to reduce the role of the public sector in marketing activities while increasing public sector provision of social services on an equitable, efficient basis.

As part of the process of analyzing the marketing system, Missions and local governments will need to analyze and be aware of the costs of policy reform. Winners and losers will need to be identified so that any adverse impacts on marginal socio-economic groups may be rectified during the process of market change.

At various phases of the process of market reform, the will of the government to act may become weak and slow down. Missions and other donors should be aware of the causes of such slowdowns in the reform process and try to act in concert to maintain the pace and direction of the reform process.

A.I.D. Missions have a variety of funding mechanisms available to facilitate the policy reform process. Non-Project

Assistance (NPA) as well as the AEPRP (ESF-funding), and food aid programs (whether Title I, II or III), can be used to help encourage the policy and administrative reform process needed to improve the efficiency of agricultural marketing systems.

The areas in which A.I.D. has a comparative advantage include:

- (1) knowledge of the local socio-economic and political environment;
- (2) access to government policy-makers and institutions;
- (3) capability to conduct policy analysis and policy dialogue; and,
- (4) experience in the agricultural sector.

A.I.D. can make its most significant and enduring contribution to the development of sustainable, efficient agricultural marketing systems by:

- * Supporting policy and regulatory reform which will enable private firms and individuals to increase the scope of their formal sector activities;
- * Supporting institutional development in both the public and private sector;
- * Supporting training for both the private and public sector in order to improve their knowledge and skills.

There is clearly a need to expand the supply of well-trained analysts in government ministries such as Agriculture, Finance and Planning. This will upgrade the capacity of Governments to conduct policy studies, to do applied research, and to link the results of the empirical work to policy and regulatory design and implementation.

The capacity to do sound policy analysis and to evaluate the consequences of marketing reforms is a prerequisite for improving the policy environment on an on-going basis. Strengthening the capacity of the Government to do such analysis is especially critical for countries in the first two stages of marketing system development.

The capacity of many social groups and organizational entities involved in marketing, especially private sector groups and firms, also requires improvement. The private firms or agribusinesses which are involved in agricultural marketing activities in most tropical African countries will require a higher level of skills and technical knowledge than they have

today if they are to improve the efficiency of their marketing systems and reclaim a greater share of world trade.

During the past thirty years, A.I.D. has sponsored training in the agricultural (production) sciences, natural resources and agricultural economics, primarily for the public sector. A.I.D. has a strong comparative advantage in this area because of the excellent American university training programs, applied research programs, and the training capacity of many private sector firms involved in agricultural marketing.

In private sector training programs the emphasis should initially be on imparting simple, low-cost technology and simple management systems which fit the specific commodities and country environment. As marketing activities expand in Sub-Saharan Africa, more specialists from the private sector will need to be trained in marketing skills, especially those marketing functions performed away from the farm-gate.

Ultimately, as marketing systems evolve, special technical expertise will be needed in food technology, handling and transport, processing, bulk storage, financial analysis and marketing management, and product packaging, distribution and promotion (involving advertising, labeling, etc.).

For this training to be effective, A.I.D. will have to go beyond its traditional sources of training, the universities, and tap the resources and skills of private American agribusiness firms and consulting groups working in agricultural marketing.

A.I.D. traditionally has worked as a government-to-government development agency. With the fairly strong presence of its field Missions in Sub-Saharan African countries, A.I.D. has a stronger capacity than most other donors, including the World Bank, to engage in effective, ongoing policy dialogue with host country officials. Field Missions also have the ability to draw on the technical expertise of public policy analysts through the universities and consulting firms. This gives A.I.D. a comparative advantage in the policy dialogue and policy reform process.

However, it should be noted that teams of expatriate advisors performing sophisticated analyses are no substitute for truly collaborative research wherein African analysts work closely with and learn from the expatriate advisors. And without a broad consensus from the host government that a change in policies is needed, expatriate technical advice and studies will have little impact.

During the first stage of market evolution, more technical advice may be necessary than at later stages. But training should be initiated in tandem with the supply of technical

assistance so that African analysts are reviewing the studies and collaborating in the research and policy formulation.

A.I.D. can also field technical expertise to help solve specific, short-term technical problems which are identified in marketing studies. However, getting the appropriate policy and regulatory environment, with incentives for all marketing agents to improve their performance, will do more in the long run to improve the efficiency of the whole marketing system as well as the specific parts of it.

A.I.D. can begin to work in several areas. But A.I.D. can probably have its biggest technical impact by working with staple food crops.

The whole marketing process for staple food crops requires improvement in much of Sub-Saharan Africa.

Some of the activities which need support include the upgrading and maintenance of the marketing infrastructure, particularly better storage (on-farm and off farm) and better roads and transport.

In addition, the processing technology for coarse grains needs improvement and dissemination.

A.I.D. can also provide important assistance for certain export crops, such as horticultural commodities. The U.S. is a world leader in horticultural marketing activities. American fresh produce marketing systems are among the most advanced technologically, the best organized and the best managed in the world. US multi-national firms are known world-wide for their expertise in horticultural production and marketing.

However, such investments should proceed cautiously in Sub-Saharan Africa because of the competitive market situation which exists between the Mediterranean countries (e.g. North Africa, Spain, Portugal, Greece and Turkey) and the Sub-Saharan African countries. Africa's current investment climate, affected by issues related to the political economy and recent historical experience, make it a less attractive place for private firms to invest and do business than other parts of the world, although there are some notable success stories (for example, Heinz in Zimbabwe).

A.I.D. may have less ability to help directly with the marketing systems for some traditional tropical African export crops, such as cotton, groundnuts, palm oil, coffee, tea and cocoa. For example, A.I.D. cannot work directly to support most cotton production activities because of the legislative restrictions (the Bumpers Amendment to the Foreign Assistance

Act). Therefore, innovative ways to help improve these commodity systems will have to be developed by A.I.D.

Moreover, A.I.D. should move cautiously in supporting improvements in primary commodity systems that are still dominated by SOEs. As a first step, A.I.D. may wish to promote policy and regulatory reform so that better prices are paid to farmers by SOEs, and so that marketing activities are opened to private as well as public firms. Ultimately, one goal of such a program might be the eventual divestment and privatization of SOE operations, assets and activities. A.I.D. can help prepare the private sector to take over those activities through training and technical assistance.

For example, A.I.D. Missions in The Gambia and Cameroon are supporting the divestment and privatization of groundnut and coffee marketing, respectively. Such efforts will require close coordination with the World Bank because of its traditional role in supporting primary commodity marketing systems and SOEs (such as in the cocoa marketing system of Ghana and the coffee marketing system of Uganda).

Finally, A.I.D. Missions may want to explore methods to help reduce the risks involved in new marketing ventures. For example, a Mission might wish to fund a Commodity Import Program (C.I.P.) which would assist the private sector import products needed to increase agricultural sector productivity and marketing efficiency, such as the USAID/Uganda Mission did. Alternatively, a Mission may wish to explore methods to help pay the start-up costs associated with new business ventures or new agribusiness investments.