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Office of Analysis, Research and Technical Support
Food, Agriculture and Resource Analysis

AGRIBUSINESS DEVELOPMENT IN SUB-SAHARAN AFRICA

Suggested Approaches, Information Needs, and An Analytical Agenda

Volume I: Synthesis

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LIST OF ACRONYMS

AEPRP	African Economic Policy Reform Program
AFR/SWA	Africa Bureau, Sahel West Africa Office, A.I.D./Washington
AFR/ONI	Africa Bureau, Office of Operations and New Initiatives, A.I.D./Washington
AMELF	Association malienne des exportateurs de légumes et fruits
AMEP	Agricultural Marketing and Export Promotion Project (Niger)
AMIP	Agriculture Marketing Investment Project (Guinea)
AMIS	Agricultural Marketing Improvement Strategies Project
AMP	Agricultural Management Project (Kenya)
ANEP	Agricultural Non-Traditional Export Promotion Program (Uganda)
APDF	African Project Development Facility (IFC)
APEX	Animal Productivity and Export Project (Mali)
API	Assessment of Program Impact
APCB	Departed Asians Property Custodian Board (Uganda)
APPP	Agricultural Productivity Promotion Program (Ghana)
ASDG	Agricultural Sector Development Grant (Niger)
ASRP	Agricultural Services Rehabilitation Program (Ghana)
ATI	Appropriate Technology International
AV	Associations villageoises (Mali)
BAME	Bureau d'analyse macroéconomique (Senegal)
BAS	Business Advisory Service (Rwanda)
BDRN	Banque de développement de la République du Niger
BCEAO	Banque centrale des états de l'Afrique de l'Ouest (Central Bank for West African States)
CAAS	Cooperative Agriculture and Agribusiness Support Project
CAPP	Cameroon Agricultural Policy and Planning Project
CDIE	Center for Development Information and Evaluation (A.I.D./Washington)
CELT	Cereals Export Liberalization in Togo
CFA	CFA franc, unit of currency used by member countries of the West African Monetary Union.
CIDA	Canadian International Development Agency
CIF	Cost, insurance, freight
CILSS	Comité permanent inter-états de liaison de lutte contre la sécheresse dans le Sahel
CIP	Commodity Import Program
CLUSA	Cooperative League of the USA
CMDT	Compagnie malienne de développement textile (extension service, southern Mali)
CNPIP	Centre national de promotion des investissements privés (Guinea)
COCOBOD	Ghana Cocoa Marketing Board
COLEACP	Comité de liaison Europe - Afrique, Caraibes et Pacifique (pour la Promotion des Fruits Tropicaux, Légumes de Contre-Saison, Fleurs, Plantes Ornamentales et Epices)
CNCA	Caisse nationale de crédit agricole (Niger)

CPs	Conditions Precedent
CPSP	Country Program Strategic Plan
DAC	Development Assistance Corporation
DAP	Diammomium phosphate
DFA	Development Fund for Africa
DHV	Développement de la Haute Vallée (area development project in Mali)
DNAE	Direction nationale des affaires économiques (Mali)
EEC	European Economic Community
EPADU	Export Policy Analysis and Development Unit (Uganda)
EPI	Enterprise Promotion Initiative (Rwanda)
EPRP	Economic Policy Reform Program (Mali)
EPZ	Export Processing Zone
ERP	Economic Reform Program (Ghana)
ERS	Economic Research Service, USDA
ESF	Economic Support Funds
FAC	Fonds d'aide et de coopération (France)
FAO	Food and Agriculture Organization of the United Nations
FED	Fonds européen de développement
FEWS	Famine Early Warning System
FOREX	Foreign exchange
FPMRP	Fertilizer Pricing and Marketing Reform Program (Kenya)
FRUITEMA	Mixed public-private exporting firm of horticultural crops in Mali
FSA/CA	Food Security in Africa Cooperative Agreement
FSSRP	Fertilizer Sub-Sector Reform Program (Cameroon)
FUCEC	Fédération des unions coopératives d'épargne et du crédit (Togo)
GDP	Gross domestic product
GEMINI	Growth and Equity through Microenterprise Investment and Institutions, R&D/A.I.D./Washington project
GEPC	Ghana Export Promotion Council
GFDC	Ghana Food Distribution Corporation
GIC	Ghana Investment Center
GMB	Grain Marketing Board (Zimbabwe)
GMP	Guaranteed Minimum Price
GMRP	Grain Marketing Reform Support Program (Zimbabwe)
GPAs	Groupements de producteurs agricoles (Senegal)
GSC	Ghana Seed Company
HYV	High-yielding variety
IAD	Institutional Analysis and Design
ICRISAT	International Center for Research in the Semi-Arid Tropics
IER	Institut de l'économie rurale (Mali)
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
INRAN	Institut de recherche agricole du Niger
IPC	Investment Promotion Center (Ghana)

IPC	Implementing Policy Change (R&D, A.I.D./Washington project)
IRA	Institut de recherche agronomique (Cameroon)
ISRA	Institut sénégalais de recherches agricoles
ITA	Institut de technologie alimentaire (Senegal)
KARI	Kenya Agricultural Research Institute
KEDS	Kenya Export Development Support Project
KMDP	Kenya Market Development Program
KNFA	Kenya National Fertilizer Association
K-REP	Kenya Rural Enterprise Programme
M & E	Monitoring and Evaluation System
MAELP	Madagascar Agricultural Export Liberalization Program
MAELSP	Madagascar Agricultural Export Liberalization Support Program
MAP	Management Assistance Program (Rwanda)
MAPS	Manual for Action in the Private Sector
MARA	Ministry of Agriculture and Animal Resources (Guinea)
MARS	Marketing and Agricultural Research Strengthening Project (Uganda)
MFAD	Manpower for Agricultural Development Project (Uganda)
MIDAS	Managed Inputs and Delivery of Agricultural Services (Ghana)
MIDEVIV	The newly created parastatal in charge of administering the North Cameroon Seed Multiplication Project (NCSMP)
MIS	Market Information System
MNA	Management Needs Assessment
MOA	Ministry of Agriculture
MSE	Micro and Small Enterprises
MSU	Michigan State University (Department of Agricultural Economics)
MSU-CESA	Michigan State University-National Food Strategy Evaluation and Monitoring Commission (Mali)
MTADS	Medium Term Agricultural Development Strategy (Ghana)
MTAP	Market and Technology Access Project (A.I.D./R&D funded)
NAP	New Agricultural Policy (Senegal)
NCBA	National Cooperative Business Association (U.S.)
NCPB	National Cereals Produce Board (Kenya)
NCSMP	North Cameroon Seed Multiplication Project
NEPRP	Niger Economic Policy Reform Program
NGO	Non-governmental organization
NIP	New Industrial Policy (Senegal)
NOIFZ	National Office for Industrial-Free Zones (Cameroon)
NPMB	National Produce Marketing Board (Cameroon)
NTEs	Non-Traditional Exports
NWCA	North West Cooperative Association (Cameroon)
OCAP	Operational Constraints Analysis Program (Uganda)
OHV	Opération de la Haute Vallée (agricultural development project in Mali)
OMBEVI	Organisation malienne du bétail et de la viande (livestock parastatal in Mali)
OPAM	Office des produits agricoles au Mali (cereals marketing board in Mali)

OPIC	Overseas Private Investment Corporation
OPVN	Office des produits vivriers du Niger
PACB	Policy Analysis and Capacity Building Project (Uganda)
PACSA	Pioneer's Cameroon Subsidiary
PAIP	Program Assistance Identification Proposal
PAM	Policy Analysis Matrix
PD&S	Project development and support funds
PED	Private Enterprise Development Project (Kenya)
PFP	Policy Framework Paper
PID	Project Identification Document
PMPR	Production and Marketing Policy Reform Program
PPC/WID	Bureau for Program and Policy Coordination, Women in Development Office (A.I.D./Washington)
PPI	Program Performance Indicators
PRAMS	Program for Reform of the Agricultural Marketing Sector (Cameroon)
PRED	Policy Reform for Economic Development Program (Mali)
PREPS	Program for Policy Reform in the Export Processing Sector (Cameroon)
PRIME	Policy Reform Initiative in Manufacturing and Employment (Rwanda)
PRISM	Program Information for Strategic Management
PRMC	Programme de restructuration des marchés céréaliers (multi-donor Cereals Market Restructuring Program in Mali)
PVM	Parastatal Veterinary Pharmacy
PVO	Private voluntary organization
R&D	Research and Development Bureau of A.I.D./Washington
R&D/WID	Research and Development Bureau, Women in Development Office (A.I.D./Washington)
ROD	Rural Organizations Development Project (Niger)
RPE	Rural Private Enterprise Project (Kenya)
RPE	Rehabilitation of Productive Enterprises Project (Uganda)
RPED	Rwanda Private Enterprise Development Project
S&T	Science and Technology Bureau of A.I.D./Washington (now R&D)
SADCC	Southern Africa Development Coordination Committee
SAP	Structural Adjustment Program
SAP	Système d'alerte précoce (Mali)
SDA	Social Dimensions of Adjustment
SIM	Système d'information des marchés céréaliers (Mali)
SIT	Système d'information transitoire (provisional information system, Mali)
SOMALAC	Rice marketing parastatal (Madagascar)
SONARA	Société nigérienne de l'arachide
SONITAN	Société nigérienne pour l'exploitation des ressources animales
SMU	Seed Multiplication Unit (Ghana)
SNTN	Société nationale des transports nigériens
SODECOTON	Cameroonian parastatal that supports small farmer production of cotton
SOE	State-Owned Enterprise

SOMACO	Newly privatized tomato processing parastatal in Mali
SONARA	Société nigérienne de l'arachide
SPSA	Système permenant des statistiques agricoles
SSA	Sub-Saharan Africa
SSE	Small-Scale Enterprise
TA	Technical Assistance
TAMALI	Tanneries du Mali (hides and skins parastatal)
TAPS	Trade, Agriculture, and Private Sector Office (Ghana)
TID	Training and Institutional Development (Rwanda)
TIP	Ghana Trade and Investment Program
TRIPS	Togo Rural Institutions and Private Sector Project
UCA	Uganda Cooperative Alliance
UIA	Uganda Investment Authority
UNCTAD	United Nations Centre for Trade and Development
UNDP	United Nations Development Program
USDA	United States Department of Agriculture
UZ/MSU	University of Zimbabwe and Michigan State University Food Security Research Project
WOCCU	World Council of Credit Unions
ZASA	Zimbabwe Agricultural Sector Assistance Program

Preface

This paper has been prepared by a team of AMIS Project analysts for AFR/ARTS/FARA, as a first-phase, interim report in a review and formulation of a strategic framework on agricultural marketing and agribusiness. The first-phase effort has been entirely a desktop review and analysis of USAID Mission portfolios in agricultural policy, marketing, and trade for 12 countries.

During the second-phase, we undertook field work in five of the 12 African countries in order to conduct more in-depth assessments of local agribusiness capability, needs and opportunities. The field work also provided an opportunity to discuss Phase I findings with interested Mission staff. The Phase II field work was carried out in the first half of CY 1992 and lead to preparation of more detailed assessments of agribusiness constraints and opportunities in the subset of countries.

Preparing this paper has been a team effort. Responsibilities for specific chapters of the synthesis (Volume I) and for the country annexes (Volume II) are listed below. The senior and coordinating author has been John Holtzman, Research Director of AMIS. Holtzman has been ably assisted by two deputy coordinating authors and activity task managers: Carol Adoum and Charles Stathacos. Holtzman, Adoum and Stathacos coordinated reviews of each section of the report; Kimberly Aldridge, research assistant, assisted in the review process. Interested readers should direct their questions regarding specific chapters of the report to the appropriate author(s). General questions should be directed to J. Holtzman, C. Stathacos or C. Adoum.

Chapter of Report	Drafters	Technical Review
Synthesis Report		
Chapters 1-4	Holtzman, Adoum (Approaches)	Stathacos
Chapter 5	Abbott, Erbacher, Holtzman	Adoum
Chapter 6	Holtzman	Adoum, Stathacos
Chapter 7	Kristjanson, Stathacos	Holtzman, Adoum
Chapter 8	Wittenberg	Holtzman, Stathacos
Chapter 9	Holtzman, Abbott	Stathacos, Adoum
Country Annexes		
Cameroon	Abbott, Ouédraogo, Erbacher	Holtzman, Stathacos
Ghana	Erbacher	Stathacos, Holtzman
Guinea	Stathacos	Holtzman, Aldridge
Kenya	Wittenberg	Holtzman, Aldridge
Madagascar	Adoum	Holtzman, Aldridge
Mali	Holtzman, Ouédraogo, Adoum	Stathacos, Aldridge
Niger	Kulibaba, Stathacos, Ouédraogo	Holtzman, Adoum
Rwanda	Adoum	Stathacos, Holtzman

Senegal	Stathacos, Ouédraogo	Holtzman, Aldridge
Togo	Adoum, Stathacos	Holtzman, Aldridge
Uganda	Kristjanson	Holtzman, Aldridge
Zimbabwe	Kristjanson	Holtzman, Stathacos

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The opinions expressed in this paper represent the views of the authors and not necessarily those of ARTS/FARA or the Africa Bureau. Any errors or omissions remaining in the paper are the responsibility of the authors.

Executive Summary

This paper is a review of A.I.D. approaches to agricultural marketing and agribusiness development since the mid-1980s, as well as a synthesis of important lessons learned from A.I.D. policy reform efforts, and programs and projects with agribusiness content. The findings are based on an initial desktop review of A.I.D. programs and projects in twelve Sub-Saharan Africa countries, review of the relevant general literature, and discussions with A.I.D. staff in Washington. The desktop review was followed by focused, limited field work in five of the initial twelve countries. The field work provided AMIS analysts with an opportunity to interact intensively with USAID Mission staff and to carry out structured informal interviews with selected agro-entrepreneurs. Note that AMIS analysts collectively had first-hand applied research and consulting experience in all of the twelve countries except Rwanda. The twelve individual country reports appear in the second volume of this study.

Based on the twelve desktop reviews and focused field work in five of those African countries, the AMIS team prepared a synthesis report (Volume I). The synthesis report summarizes approaches to agribusiness development used by USAID Missions (chapter 3), significant lessons learned (chapters 4-6), impact assessment indicators (chapter 7), information needs and gaps of agribusiness operators, African governments and USAID Missions (chapter 8), and a general strategy of agribusiness development and trade promotion in Africa (chapter 9).

Note that the paper does not fully or adequately address important issues of gender or ethnicity. This was in part by design, as the terms of reference did not call for explicit treatment of these issues. It also reflects our judgement that a separate, in-depth treatment of these issues is required. That is, an anthropologist who is well-versed in gender and ethnicity analysis could prepare a separate manual spelling out how to incorporate gender and ethnic variables and considerations into the design, implementation, and monitoring and evaluation of agribusiness projects and programs.

Nevertheless, it is important to highlight the critical production, marketing and distribution roles played by women and certain ethnic groups in most domestic commodity subsystems. Women dominate the retailing of staple crops and processed foods in most urban areas in Africa. Certain ethnic groups dominate long-distance trade in commodities such as livestock and grain; ethnic ties lower transactions costs and risks of default or non-compliance with informal (typically verbal) contracts. Several immigrant groups of non-African origin also dominate international trade in agricultural commodities and consumer goods.

In designing and implementing non-traditional export programs, A.I.D. needs to pay special attention to engaging women in the marketing and export of non-traditionals. Given prior uneven income distribution and differential access to credit and support services, women could be disadvantaged in trying to compete with men generally and particular ethnic groups with trading expertise. In the final analysis, it is important to remember that the playing field

is not always level. Groups who have historically dominated agricultural marketing have greater wealth (and hence collateral), better access to formal credit, better informal market information networks, and in some cases significant market power.

Special measures may need to be taken to prevent advantaged groups from capturing a disproportionate share of the benefits of A.I.D. agribusiness development projects and programs. A.I.D. projects can avoid some of these potential problems by incorporating gender-sensitive techniques in their planning and design processes, such as targeting of commodity subsectors and market channels that have been traditionally dominated and controlled by women. To the extent that such targeting of project assistance to women is implemented, it will have to be continually and carefully monitored to identify potential problems and correct for them. One possible development would be for a particular commodity subsystem to become more attractive to men or dominant ethnic traders as an investment and trading opportunity; if men entered these subsystems with superior market power or access to (subsidized) resource flows, women might be pushed out of key roles in the subsystem. Other techniques of addressing gender issues in program design and implementation may be identified through such A.I.D./Women in Development Office documents as Gender Issues in Agriculture and Natural Resource Management (S. Russo *et al.*, 1989). The interested reader is also referred to Addressing the Constraints of Chadian Women: A.I.D. Program Strategy and Management Plan, prepared by Carol Adoum for USAID/Chad and R&D/WID (1991).

USAID Approaches to Agricultural Marketing and Agribusiness Development (Chapter 3)

The major thrust of A.I.D. programs in agricultural marketing and agribusiness development during the 1980s was in the areas of market liberalization, trade policy reform, and regulatory reform. In working closely with the World Bank and other major donors, USAID Missions provided funding for liberalization of staple crop marketing systems, streamlining and redefinition of parastatal organizations, and empirical studies of the organization and performance of coarse grain and other key subsectors. In a number of countries where A.I.D. funded field studies, such as Zimbabwe and Mali, empirical research findings were actually used to influence policy formulation. In effect, policy and regulatory reform is in the process of becoming less of an ideological event and more of an analytically-driven process, where research findings provide useful, timely input into policy formulation and implementation. In this way, policy-makers can monitor the effectiveness of implementation and the impact of reform programs on market performance and the behavior of farmers, traders and processors.

A.I.D. and other donors have achieved a number of policy and regulatory reform successes since the early 1980s. In many African countries, parastatal grain marketing organizations are no longer statutory monopsonies that dominate the grain trade. Private wholesale traders have been allowed to buy, sell, store and transport grain, which were formerly illegal activities The role of marketing boards has been redefined in many African countries to focus on management of a strategic grain reserve, food aid distribution, and (in a few cases) defending of a grain floor price.

The implementation of policy and regulatory reforms has not been achieved painlessly and without a tendency to backslide. During the second half of the 1980s, good rainfall and cereal crop output coincided with reform programs in many African countries, which was generally positive. Parastatals that set floor prices too high found that they could not possibly defend the floor in successive surplus years, however.

A.I.D. and other donor emphasis on policy and regulatory reform has been a necessary condition for agribusiness development. Without an "enabling environment" and an agricultural marketing system structured with the right mix of incentives and sanctions, private investment in agriculture will be halting and idiosyncratic (in the sense that it requires special, non-replicable deals to be made between prospective investors and key government stakeholders). The authors of this report strongly recommend that A.I.D. invest heavily in agribusiness promotion in only those African countries where significant policy and regulatory reform has already been undertaken or is well underway.

While many USAID Missions concentrated on policy and regulatory reform during the late 1980s, they also funded programs and projects which improved the performance of marketing functions. Rural road rehabilitation and maintenance projects, credit programs, investments in public market information systems, and fertilizer distribution privatization programs fall in this category. These projects and programs were designed to support and facilitate the emergence of competitive, efficient, and largely private sector-run agricultural marketing systems.

In the late 1980s, some USAID Missions began to focus on designing agribusiness projects and programs, notably in Guinea, Kenya and Uganda (see country annexes for details). USAID/Guinea implemented a Private Agribusiness Preparation Project from 1985 to 1990 that focused on development of a private sector service institution to help entrepreneurs obtain access to credit, provide critical business services, implement training, and build private sector capacity to engage in dialogue with the public sector. USAID/Kenya funded the Agricultural Management Project (1985-92), which sought to improve management capacity and operational performance of private firms and selected state enterprises. The Rural Private Enterprise Project (1983-91) provided credit to small and medium-scale firms in rural areas and agribusinesses through private banks, as well as grants and technical assistance to PVOs working with rural enterprises. A third USAID/Kenya project, the recently begun Kenya Export Development Support Project (199[illegible]-96), will strengthen agribusiness exporters' capacity. Finally, USAID/Uganda's Agricultural Non-Traditional Export Promotion Project (ANEP, 1988-92) has funded technical assistance and training of non-traditional crop exporters in addition to supporting policy and regulatory reform. ANEP established the Export Policy Analysis and Development Unit (EPADU) and funded a Commodity Import Program, which enabled agro-entrepreneurs to import critical production inputs and capital items during a period of foreign exchange scarcity. A.I.D.'s experience to date in implementing these projects is promising, yet it is too early to generalize about how best to go about fostering agribusiness development in Sub-Saharan Africa.

Significant Lessons Learned from Agricultural Marketing Interventions in Africa (Chapter 4)

Public Sector Efforts to Strengthen Agricultural Marketing Systems. Most of what USAID Missions have done in Africa to date has been to focus on policy, regulatory and institutional (especially parastatal) impediments to the emergence of competitive, efficient marketing systems. A key lesson of programs of staple food crop marketing reform has been that there are often gaps and lags between the announcement of policy reform and actual implementation. Hence, we recommend that the implementation and (where funding permits) the impacts of policy reform programs be carefully monitored and evaluated.

In most cases, official decrees of policy reform need to be supplemented with **marketing information extension efforts** to interpret the implications of policy reform to farmers, traders and other marketing agents. Such extension is especially valuable in African countries where rent-seeking behavior is a costly barrier to trade. When informed of their rights, farmers and traders are better armed to ward off predatory rent-seeking. Encouraging groups of private traders to form associations that can lobby, act as a countervailing power against rent-seekers, and otherwise exercise political clout reinforces extension efforts. The greater the extent to which such associations provide useful services and empower private agents, the more they are likely to be self-supporting and -sustaining. **Strengthening trade associations** is timely and appropriate at this point in the political development of many African countries as they experiment with democracy.

One excellent way to monitor the effectiveness and assess the impact of policy reform programs is to upgrade public market information systems (MIS). The main users of market information services are likely to be other public agencies in the short term. Private farms and firms already rely on informal sources of market information, for which publicly disseminated market information can serve as a useful crosscheck. In addition, public agencies whose mission is to formulate agricultural and food security policy and monitor the national food situation need timely, reliable market information presented in a clear, concise fashion.

The most successful market information systems have restricted their coverage to a limited number of marketplaces, agricultural commodities, and transactions levels. Commodity units and grades are well-defined, and data are collected consistently over time and across markets for the same commodity grades and at the same transactions level (producer, wholesale or retail). Enumerators are well trained and supervision is tight. The USAID/Mali SIM (*système d'information des marchés céréaliers*), run by the cereals marketing board OPAM, meets these criteria.

Providing reliable, timely market information to farmers and traders is more difficult than meeting the needs of policy-makers and government analysts. First, many private agents tend to suspect or discount public information. In many cases where African governments have broadcast agricultural commodity prices over the radio, the accuracy of prices has varied. Without sustained government or donor funding, some MIS (as in Kenya) have not

been able to maintain high standards in price data collection, processing and analysis. Any inaccuracies or inconsistencies in price reporting lead private agents to dismiss public market information as invalid. Data collection and reporting have to be streamlined to avoid lags in transmission of market information in order to serve the private sector. Price information needs to be provided to marketing agents in a form that they can understand and use. It also should be interpreted in the context of supply and (any seasonal) demand factors. Radio dissemination reaches a target audience more quickly and effectively than written price reports.

Building local analytical capacity is an important joint product of many projects to strengthen public institutions that support marketing system development. The AMIS team recommends that the building of local capacity be linked to general civil service reform programs that address the issues of inadequate pay, excess personnel, and poor management of public agencies. Without narrowing the gap between public and private pay scales, local capacity building cannot effectively take place. Skilled, trained analysts will abandon public sector employment for higher-paying private sector jobs. While this may not represent a net loss for the economy, it does lead to dysfunctional institutions, which face constant turnover and low public employee morale. We recommend that A.I.D. programs to strengthen the capacity of public agencies address the pay differential issue squarely and that A.I.D. design incentive programs (as in USAID/Mali's Economic Policy Reform Program) to induce early departure of civil servants, particularly less productive ones, in exchange for seed capital for enterprise development.

Institutional reform has been demonstrated to be a complex, drawn-out process in many African countries. Privatization of processes, such as fertilizer importation in Cameroon and Kenya, has proceeded more quickly and effectively than privatization of institutions, particularly parastatal agencies with multiple mandates. **A key lesson is that reform, streamlining, and revitalizing of public institutions serving agriculture and agribusiness require sustained funding, skilled technical assistance, careful dialogue and in some case special incentives** (early retirement programs) to get government stakeholders to buy into the process. Vigilant monitoring of privatization and divestment programs is essential.

Interregional, intraregional and international trade in agricultural commodities is hindered by inadequate, underdeveloped and increasingly dilapidated infrastructure. The extensiveness and condition of the road system is a key determinant of marketing costs and deterrent of trade. As donor funding for new roads has shrunk, maintenance has received greater attention and emphasis. Some African countries are experimenting with alternative mixes of costly, scarce capital and inexpensive, abundant labor in order to lower road maintenance costs and enhance the effectiveness of limited public funds. Telephone services in quite a few African countries are poor and unreliable, which restricts information flows and the ability of firms to respond quickly to changing supply and market conditions. Unreliable and limited telephone service may increase marketing agents' transaction costs, forcing them to accompany loads to market or personally inspect agricultural commodities at different points along the

marketing chain.[1] Telecommunication links with the outside world may critically affect the competitiveness of agribusiness exporting firms in African countries. So may access to ports with container handling capacity. Declining rail service in some countries, such as Burkina Faso and Côte d'Ivoire, may force many traders to use inherently more costly transport modes, particularly trucking, as opposed to inefficient, time-consuming rail shipment.

A.I.D.'s record in transfering technology to African agribusiness operators is mixed. Improved food crop processing and storage technology is typically transferred to cooperatives or village groups, which often lack economic incentives to maintain equipment properly and keep it running. Costly investments in grain storage have typically proved uneconomic, although cooperative and parastatal mismanagement may have played a part. The effective demand for labor-saving, mechanized grain processing services is thin outside of key cities in Sub-Saharan Africa. Innovative, highly-efficient mechanical prototypes or machines that do not require fossil fuel (but rely on hand, animal, bicycle or solar power) hold promise in regions of low incomes, limited population and population dispersion. As some USAID Missions become involved in promoting non-traditional exports from Sub-Saharan Africa, those Missions will need to pay more attention to technology issues, particularly cooling, post-harvest handling, processing and packaging. Only the most attractively presented produce and consistently high-quality processed commodities will provide positive returns in increasingly competitive international markets.

Lessons from A.I.D. and World Bank Experience in Africa and Other Regions in Agribusiness Trade and Investment Promotion (Chapter 5)

Analysis of A.I.D. experience since 1985 with trade and investment promotion programs (primarily in the LAC Region) showed that the most cost-effective programs provided information and referral services to local and foreign investors in countries where the investment climate and potential are relatively favorable. This approach assumes that lack of information is the main constraint to new trade and investment activities. On the other hand, in countries where the economic and policy environment is more constrained, and the physical and business infrastructure is less developed, a targeted or enterprise-specific approach was more appropriate since it concentrated resources on those enterprises which could benefit from such services as brokering of links with foreign firms to help form joint ventures, and accompanying technical assistance.

Regardless of the approach selected, **A.I.D. experience worldwide clearly demonstrates the overriding importance to trade and investment of access by foreign investors to reliable information on the local economy and on the investment and regulatory climate.** In addition, foreign investors value detailed information on the historical performance, financial strength, production capabilities, and reliability of local firms.

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[1] Note that the absence of uniform grades and standards is also a factor which compels traders to inspect produce before purchase or sale.

Local private sector organizations in developing countries, such as trade, industry, or commodity associations, have an important role to play in promoting public-private sector cooperation. They can provide support services to agribusiness, lobby for an improved policy and regulatory climate, and facilitate contact between local and foreign businessmen. In African countries where the private sector has been harassed or restricted in scope by the operations of parastatal organizations, trade or industry associations can empower private firms and provide countervailing power against rent-seeking agents of the state.

Recent applied research by the World Bank Group has revealed additional insights. In a 1989 review of export success stories in eleven countries, **the World Bank found that *catalysts* played a vital role in combining production and export know-how with domestic resources and foreign financing to develop viable export enterprises.** The success of catalytic start-up export operations in several subsectors (e.g., cocoa, flowers, plywood, condiments) provided a positive demonstration effect. Catalysts also diffused experience and know-how acquired in start-up enterprises to other private participants.[2] Without providing specific guidance on how to identify potential export catalysts, the World Bank recommends that these individuals need to be cultivated, and that the lack of information about opportunities for collaboration between small and medium-sized firms in developing countries may be a major constraint on development. A possible role for ARTS/FARA and AFR/ONI would be in helping USAID Missions to identify catalyzing agro-entrepreneurs and to support their efforts through providing information about foreign market opportunities and requirements and prospective joint venture partners. Finally, successful catalysts could be encouraged to form private export-facilitating firms or associations.

In an International Finance Corporation study entitled African Entrepreneurs: Pioneers of Development, Marsden (1990) argues that the **formal sector in African industry and agribusiness is not missing, but that it is capital-starved and "waiting in the wings" to take off.** Marsden argues that African entrepreneurs need private sources of information and services, which are specialized and product- or subsector-specific, rather than generic information from government agencies. He asserts that market information and technical advice can be obtained free of charge in many cases from business partners (investors or importers), who view transfer of know-how as a normal feature of commercial relationships. In addition to providing finance through programs such as the Africa Project Development Facility (APDF), Marsden notes that donors can provide incentives to African entrepreneurs by pressing African governments to deregulate key sectors and industries and reduce taxes on profits, dividends and personal income.

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[2] See World Bank Industry and Energy Department, The Role of Catalytic Agents in Entering International Markets, March 1989.

In recent work by the World Bank on export promotion, Keesing and Singer conclude that much development assistance has been misguided.[3] They argue that **trade promotion organizations within the public sector are ineffective, because they do not provide support to exporting firms which need to upgrade their production capabilities to meet the requirements of foreign markets.** Although Keesing and Singer have examined industrial manufacturing, their conclusions also apply to agribusiness, where value is added through careful post-harvest handling, cooling, packaging and processing of high-value agricultural products. They argue that the key **constraint facing prospective exporters is lack of detailed knowledge of foreign market requirements with respect to grades and standards, packaging and labeling requirements, and desired attributes of products (color, texture, freshness).**

The work of Keesing and Singer calls into question the role of government or quasi-government export promotion agencies. A.I.D. is financing agribusiness support and service organizations in Chad, Kenya, Uganda and Guinea. **While donor seed capital and technical assistance may be essential to getting these organizations moving, they are unlikely to be sustained without a strong private sector orientation, providing needed services and information to agro-entrepreneurs, and autonomy from African governments.** The experience of A.I.D. agribusiness support centers needs to be closely monitored and evaluated. Alternative models of export promotion, such as business incubators, trade associations, and industrial parks or export processing zones, should also be tried on an experimental basis and rigorously monitored.

Lessons Learned from A.I.D.'s Direct and Indirect Promotion of Domestic Agribusiness Development and Intraregional Trade (Chapter 6)

While A.I.D. and other donors have focused primarily on foreign investment and promotion of exports to high-income markets in recent years, **many of the more immediate and viable agribusiness opportunities for African agro-entrepreneurs lie in domestic or regional markets.** Most African countries face serious disadvantages in trying to enter exacting, highly competitive international markets, due to poor infrastructure, high transport costs, rudimentary telecommunications, and the limited know-how and marketing management skills of many African agro-entrepreneurs. Yet many African agro-entrepreneurs are knowledgeable about trade opportunities within the same regions of Africa; they have regional business contacts and know (and are able to meet) product requirements. Exporting to other African countries within the same region could be an important step in developing viable international export enterprises.

A few caveats need to be noted, however. First, domestic and regional markets for most agricultural commodities are thin and unlikely to expand quickly, given the limited purchasing

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[3] See Hogan, Paul, Donald B. Keesing and Andrew Singer, The Role of Support Services in Expanding Manufactured Exports in Developing Countries, EDI Seminar Series, Economic Development Institute of the World Bank, Washington, D.C., 1991.

power of most consumers and stagnant incomes in much of Sub-Saharan Africa. Second, trade opportunities are limited among countries with similar resource endowments, climatic conditions and agricultural production patterns. Third, transport costs within regions of Africa can be prohibitive except for the highest value commodities.

Nevertheless, many would argue that a broad-based strategy for agribusiness development in Africa should focus first on exploiting domestic and intraregional investment and trade opportunities. This paper addresses the following issues at a strategic and conceptual level:

- formal vs. informal sector firms and A.I.D.'s role;
- financial requirements of firms;
- market depth and access issues;
- transport costs and their impact on export prospects for relatively low-value commodities; and,
- scale and appropriate technology issues.

Trade, financial, and commercial policies have primarily benefitted large, formal sector firms in African countries while penalizing smaller, informal sector firms. Yet a vibrant informal sector is usually evidence of significant policy and regulatory biases against small to medium-sized formal sector firms. USAID Missions need to identify these biases and help to lighten the (tax, regulatory) burden of smaller firms in the formal sector. Furthermore, **the benefits of joining the formal sector, such as improving access to formal credit, need to outweigh the disadvantages represented by higher taxes and the need to comply with government regulations. Hence, in many African countries the formal financial sector will need to be deepened and broadened so that it reaches more entrepreneurs, particularly small- and medium-scale ones.**

The record of formal credit programs that attempt to target particular groups or types of firms is mixed in the developing world. Under a Cooperative Agreement with A.I.D., Ohio State University has emphasized savings mobilization in rural financial markets. OSU has also argued that the **Africa Bureau should consider providing financial resources indirectly to agricultural producers, rural assemblers, and distributors of agricultural products via agribusiness firms.** These firms could play a valuable role of financial intermediation that would reduce lending costs, provide adequate monitoring of the performance of loan recipients, and lower risks for formal financial institutions. Clearly, many agribusiness firms in Africa are already providing informal financial intermediation. Key issues for further research are to establish the extent (number/type of loans, size and terms of loans) of such lending practices, the willingness of agribusiness firms to play an expanded role, and how such a formal-cum-informal financial system would be organized and managed.

Thin markets for most agricultural commodities and difficult, costly market access limit trade opportunities in many African countries. Furthermore, unpredictability and unreliability of supply, particularly in semi-arid and arid African countries, is a constraint to the emergence of medium- and large-scale domestic firms which market and process staple commodities. At

the same time, such output variability creates trade opportunities between very drought-prone and less drought-prone regions.

High transport costs in Sub-Saharan Africa are a serious impediment to intraregional trade in bulk commodities, such as grains, tubers, and oilseeds, which constitute a large proportion of commodities grown by farmers in most countries. Factors contributing to high transport costs in most African countries are the high cost of fuel and lubricants, vehicles and spare parts, as well as the poor condition of many rural roads, which increases maintenance and repair costs. Transport rate-setting, over-regulation, administrative allocation of cargo among the trucking fleets of countries which are trading partners, and regulations which dampen incentives to achieve scale economies in trucking also contribute to transport inefficiencies. Finally, informal marketing charges or rents paid to uniformed agents along roads (i.e., at checkpoints), on railways and at ports increase marketing costs and/or impose transport delays. Improvements in transport infrastructure, reduced regulation of trucking, lower government taxes on imported vehicles, spare parts and fuel, and reduced numbers of checkpoints and uniformed agents on transport arteries could lower transport costs.

Thin markets, limited ability to pay for value-added processing, and high transport costs suggest that agro-processing of staple commodities should be relatively small-scale and decentralized. Given the high cost of imported machinery and fossil fuels (except in producing countries such as Nigeria), equipment needs to be durable, well-adapted to work under rigorous conditions, and preferably fabricated in Africa. Sub-Saharan Africa has proven to be a graveyard of capital-intensive processing and storage schemes. The international centers, particularly CIAT, IDRC and NGOs such as Appropriate Technology International have developed prototype grain and cassava processing units, oil presses and other equipment that meet the above conditions, but there is limited evidence of successful diffusion. At the other end of the technology scale, state-of-the-art production and handling methods need to be applied to exports of high-value agricultural commodities destined for high-income markets. There is scope for adapting technologies used in industrial countries to African conditions in a way that makes abundant use of labor and economizes on scarce capital.

A major challenge in developing technology suitable to African agribusiness is how African agro-entreprises can become more technically and operationally efficient, as well as competitive in domestic, regional and international markets. The conventional wisdom that marketing, processing and storage technology should be small- to medium-scale, and that technologies ought to be labor-intensive, making use of the seeming abundant factor labor, may not be valid in all country contexts or commodity subsystems. Technology scale and labor intensity will likely vary by region, depending on population density, density and quality of the road network, labor relative to capital costs (and labor costs in other countries and parts of the world), and the technical and operational efficiencies of technologies of different scales in the African context. Hence, a major technological issue for further investigation is the appropriate scale of post-harvest handling, transport, processing, and storage facilities to maximize efficiency and local value-added.

Finally, small and medium-scale agribusinesses have far less voice or political clout than formal sector associations of firms in Sub-Saharan Africa. In order to organize effectively as lobbying groups, associations of smaller firms may require significantly greater support than larger, formal sector agribusinesses.

Monitoring and Evaluation of the Impact of A.I.D. Agribusiness and Agricultural Marketing Initiatives (Chapter 7)

To be effective and objectively verifiable, APIs (Assessments of Program Impact) need to be practical and targeted. To show impact, **APIs need to go beyond process indicators, which measure inputs per unit and delivery of services, to measure impact, which can be defined in many ways (lower marketing costs, progressiveness, increased incomes and investment).** A five-level objective tree is presented in Chapter 7 which logically spells out performance measures from level 1 (actions that establish conditions) through levels 2-5 (conditions that contribute to increased efficiency; agribusiness and agricultural marketing objectives; expected outcomes; and finally, the agricultural sector strategic objective). Process indicators are used to measure performance of level I actions, which establish conditions for improved market efficiency. The farther up the objective tree one moves, the more indicators measure impact, first indirectly (at levels II and III) and then directly (for levels IV and V).

Evaluating impact also requires flexibility in interpretation. Impact may be quite different in the long-term relative to the short-term. For example, a short-run impact of improving rural roads may be higher prices to producers, as transport costs decline, production zones become more accessible to traders, and competition for available commodity surpluses bids up prices. In the medium term, producers are likely to respond to more attractive prices by producing larger surpluses, which expand supply and dampen price increases (assuming demand conditions do not change significantly). Over the longer run, producers would respond to lower prices for certain staple crops by altering their crop mix to maximize returns under a new set of relative prices. Over the medium to long term, input prices may change as well, which could further alter farmer incentives. In the final analysis, both intellectual rigor and flexibility are needed to interpret changing production regimes and market conditions, which may vary significantly from year to year due to weather or world market shocks. Moreover, a certain humility is required in attempting to attribute impacts to particular A.I.D. programs and projects. Other donors, particularly the World Bank, have funded macroeconomic and sectoral adjustment programs, as well as many development projects, which are typically larger than A.I.D. investments and have a greater cumulative impact. Trying to attribute particular impacts at the farm, market or household levels to particular donor programs poses methodological challenges when one cannot control for other, simultaneously changing variables.

Information Needs and Gaps (Chapter 8)

Although the information needs of public agencies and the private sector overlap in Sub-Saharan Africa, they diverge in important respects. **A.I.D.'s needs are defined by the program and project life cycle.** At the identification stage, A.I.D. needs broad macroeconomic and agricultural sector data. During project design far more specific information is required about particular agricultural commodity subsectors. The **commodity subsector approach**, which examines the subsector's organization, behavior and performance, **is a suitable analytical framework for exploring subsectoral constraints and opportunities.** Program design generally calls for detailed information regarding agricultural sector constraints, which allows for prioritization, as well as comparative information on the historical and current roles and strengths of public institutions and private actors.

As programs and projects are implemented, A.I.D. needs to monitor implementation (generally using process indicators) and evaluate impacts (agricultural sector or subsector performance). Assessing impact is facilitated by developing as precise, quantifiable measures of performance as possible. Agricultural price and cost data are useful for examining marketing system efficiency and competition. Agricultural production and trade (especially export) data are indispensable for assessing the impact of export promotion programs. Information on processing throughput and utilization rates are needed to evaluate the effectiveness of agro-processing interventions.

The information needs of private agribusiness operators are product- and market-specific and vary with the complexity of transformation and market segmentation. At a minimum, agribusiness firms need to know prices and supply conditions for agricultural commodities in surplus zones and terminal markets, whether deficit domestic areas or foreign markets. The higher value the commodity or the more costly and complex the agro-processing function, the greater is the need for additional information about sources and costs of processing inputs other than the raw commodity (machinery, repair services, fuel, labor), post-harvest handling requirements, and terminal market requirements (i.e., freshness, packaging, color, texture and other attributes). Exporters also require contacts with reliable potential buyers, as well as specific information about shipping costs and availability, financial arrangements, phytosanitary regulations, and quality requirements. Some knowledge of seasonal trends is critical for agro-entrepreneurs who store commodities or target particular counter-seasonal windows in high-income countries. Some sense of future market prospects is critical for those who invest in tree crops which do not produce benefit streams before, say, the fifth year.

As a central office monitoring a broad set of individual mission portfolios, **ARTS/FARA can play a critical role in centralizing information on regional and international markets.** It is costly for individual mission programs to collect, process and analyze international commodity price and trade data. Key commodity production and trade data banks are more readily accessible in Washington than in African countries. Furthermore, the analysis required of such data is likely to be routine and duplicated several times. ARTS/FARA could also serve as an **active clearinghouse for special studies and data sets** which could be used by multiple

missions and interested parties. Price and trade data for commodities traded regionally are better assembled, managed and analyzed at the regional level (at REDSO/WCA, REDSO/ESA and perhaps SADCC).

ARTS/FARA could also play a coordinating role in providing prospective exporters based in Sub-Saharan Africa with detailed information about market opportunities and requirements in high-income markets such as the U.S. and EC countries. Analysts in ARTS/FARA or contractors could carry out special, commodity-specific trade and feasibility studies for individual missions and ultimately, trade associations or individual agro-entrepreneurs.

ARTS/FARA could coordinate with AFR/ONI, the Departments of Commerce and State (commercial officers in high-income countries) and the **Department of Agriculture** (especially **APHIS**) **to identify potential buyers and market requirements.** In order to handle requests about the U.S. market or prospective American partners or importers, the **Africa Bureau could develop a direct referral service in conjunction with U.S. and African business and trade associations.**

Agribusiness Development and Trade Promotion in Africa: Future Directions (Chapter 9)

Agricultural marketing systems in most countries and for most commodity subsystems in Sub-Saharan Africa are primarily in the early stages of evolution. Marketing systems and commodity subsystems at different stages of development require different mixes of policies, infrastructure investment and maintenance, and efforts to strengthen human capital. African countries in stage I require basic infrastructure investments, improvements in agricultural productivity, and the creation of a macroeconomic, policy and regulatory environment that supports private investment and initiative. The public sector will in most cases play a more active role in countries in stage I than in countries at other stages of marketing system development. This is because the private sector is likely to be weak and unable to perform some necessary marketing functions.

African countries in stage II require a different mix of interventions than countries in stage I:

- Greater emphasis on infrastructure maintenance of main grids rather than investment.
- Yet better rural road networks to service farmers who produce surpluses.
- Refined mandates and roles of marketing boards (providers of services such as market information, regulators of the private trade, and guarantors of grades and standards).
- Strengthened policy, regulatory and legal frameworks for facilitating private enterprise.

- Special incentives or subsidies to encourage emergence of private agents in performance of marketing functions previously dominated by state.

- Agricultural research beyond the farm to focus on improving technology of marketing and processing functions.

African countries in stage III require yet a different mix of interventions than countries in stages I and II. These include:

- Telecommunications upgraded for export promotion.

- Improved infrastructure in secondary towns or export processing zones.

- Policy reform and regulatory streamlining to promote exports.

- Introduction and mastery of export crop production, post-harvest handling, processing, storage and shipping technologies.

- Uniform grades and standards, with particular attention to satisfying phytosanitary regulations.

- Export commodity-specific training and extension programs.

- Increasing accessibility and sophistication of financial instruments to meet needs of exporters (letters of credit, currency convertibility and hedging).

- Legal system that enables firms to enforce contracts (and penalize non-compliance).

- Secure land tenure and emergence of private land markets. Secure tenure encourages investments in land improvements, such as irrigation and drainage.

- Government regulation of private agro-input suppliers to assure competition and minimize abuses.

A key conclusion to draw from this discussion of marketing system stages is that the dynamic nature of marketing system evolution, whereby the most binding constraints and appropriate interventions to alleviate them will differ by stage. **A.I.D. needs to develop an iterative and flexible process of constraint identification, thorough diagnosis of constraints, formulation of prescriptions for alleviating constraints, and monitoring and evaluation of policy reform, programs and projects.** Prescriptions can take the form of policy and regulatory reform, innovations in marketing system organization, training to strengthen human capital development, technology innovations and their dissemination, infrastructure improvements and better maintenance, and other public-good types of investments, such as market information services.

Not all African countries are ripe for active agribusiness trade and investment promotion programs. Indeed, few African countries are at a stage of economic and marketing system development where export of high-value agricultural commodities to high-income markets is a serious option. **We recommend that ARTS/FARA classify African countries as to their suitability for agribusiness investment, which could be coordinated with the Africa Bureau effort to *focus and concentrate* efforts in selected, promising African countries.**

We argue for a classification scheme that initially places a premium on the policy and regulatory environment. Strongly reforming African countries with positive "enabling environments" are strong candidates for agribusiness trade and investment promotion programs. Other variables such as the quality of the resource base, infrastructural development, and human capital are also important considerations. Classifying African countries into three different groups would yield the following classification scheme.

- Group I African countries would have favorable policy environments and resource endowments, well-developed infrastructure, and a strong human capital base. These countries would be most well-suited to programs of agribusiness trade and investment promotion.

- Group II African countries would have a mixed record of policy and regulatory reform, less favorable resource endowments, less-developed infrastructure, and a weaker human capital base. These countries would be better suited to domestic agribusiness development and intra-regional trade promotion.

- Group III African countries would have a weak policy and regulatory reform record, poorly developed or dilapidated infrastructure, limited resource endowments, and a low level of human capital development. A.I.D. efforts should be concentrated on improving the enabling environment and the food security situation, and generally not on active agribusiness promotion in these countries.

Group I countries are the best candidates for *traditional* agribusiness trade and investment promotion programs, which focus largely on providing information to domestic exporters and foreign investors or buyers. Group II countries require more *targeted* agribusiness trade and investment promotion programs that strengthen the production, marketing and management capabilities of individual firms. Alternatively, Group II countries may profitably focus on promoting domestic agribusiness development for both the domestic and regional markets. Last, Group III countries are not the best candidates for scarce A.I.D. agribusiness investment resources; missions are advised to focus on improving the enabling environment and meeting food security needs through applied research, improvement of staple food crop markets, and food aid. In selected Group III countries *targetted* agricultural trade and investment promotion programs may be appropriate as a reward for strong performance by government in policy reform and in creating a positive investment climate.

An important caveat to keep in mind is that all classification schemes have inherent flaws. In this case, ARTS/FARA is required to rank the agricultural marketing systems across African countries when commodity subsystems within each country are effectively at different stages of system development. Hence, comparisons are probably more appropriate for similar commodity groups. Finally, our classification scheme focuses principally on the policy and regulatory environment (or enabling environment) and initial conditions such as infrastructure, agricultural production patterns and potential, and human capital. There are many other important factors to consider, however, as shown in Exhibit 8.

International Agribusiness Trade and Investment Promotion

The basic rationale for trade and investment promotion programs is that they facilitate the establishment of foreign investment or trade links where they would otherwise not be consummated by assuming some of the initial costs of project investigation, providing information and contacts which would otherwise by difficult or costly to obtain, and reducing perceived risks through supporting or ancilliary activities (such as technical assistance). Such programs have a good chance of succeeding, however, in countries where basic conditions, such as the policy and regulatory environment and the physical infrastructure are favorable to private business, and where there is a sufficiently strong agricultural production base.

A.I.D. should identify a first group of countries which are most likely to benefit from broad trade and investment promotion programs and a second group which might benefit from more *targeted* programs. On-site country assessments would provide a basis for deciding on the best approach and would at the same time make a preliminary selection of target industries and sectors for further study. The next step would be a diagnostic study of marketing systems for the selected commodity subsectors. The AMIS Rapid Appraisal method is a suitable diagnostic tool.

A *targeted* or enterprise-specific approach would be used in a country where, for example, there were good prospects for development of export industries in one or two specific crops, even though the general investment climate was not especially favorable. For the more developed countries with favorable business climates and good investment potential, USAID Missions would plan relatively low-cost promotion programs of the *traditional* type, under which an investment promotion agency run by a private, non-profit business organization provides information on the local economy and local business referrals to foreign investors, conducts workshops and seminars for local businessmen, prepares profiles of potential investment projects, and sponsors trade missions by U.S. firms.

Management of trade and investment promotion programs by USAID Missions requires business experience, continuity, and flexibility to accommodate the numerous extraneous factors which can affect trade and investment decisions. The expertise provided by personnel from U.S. agribusiness firms in the project identification, investigation, and post-investment technical assistance phases can mean the difference between success and

failure. A.I.D. needs to promulgate "rules of engagement" governing the way in which it can work with the private sector.

Towards an Analytical Agenda for Promoting Domestic Agribusiness Development and Intraregional Trade

A top priority for the Africa Bureau in working in Group II countries is to collaborate with other donors in removing remaining policy and regulatory reform barriers to intraregional trade. These barriers may be exclusively trade issues or lie somewhat farther afield in transport or industrial sector policies. ARTS/FARA can assist USAID Missions in Africa in helping to monitor and evaluate the implementation of policy reforms affecting intraregional trade, and to track the impacts of reform programs on food system participants.

Analytical efforts targeted to Group II countries, in which A.I.D. promotes domestic agribusiness development and intraregional trade, should focus initially on in-depth analyses of constraints, which conclude with a rank-ordering or strategic plan for sequentially addressing constraints. **The knowledge base on formal sector and larger informal sector agro-entrepreneurs in African countries is thin and needs to be strengthened by further empirical work.** Special emphasis needs to be placed on learning the perspectives, opinions and recommendations of African agro-entrepreneurs, preferably through in-depth case studies. Interviews should be conducted by consultants or representatives of trade associations without government affiliations.

Key areas to investigate include the following:

- **Identifying the financial experience and defining future financial requirements of agribusiness firms.** The advisability and appropriateness of using agribusiness firms as formal financial on-lenders to farmers, assemblers and distributors should be investigated.

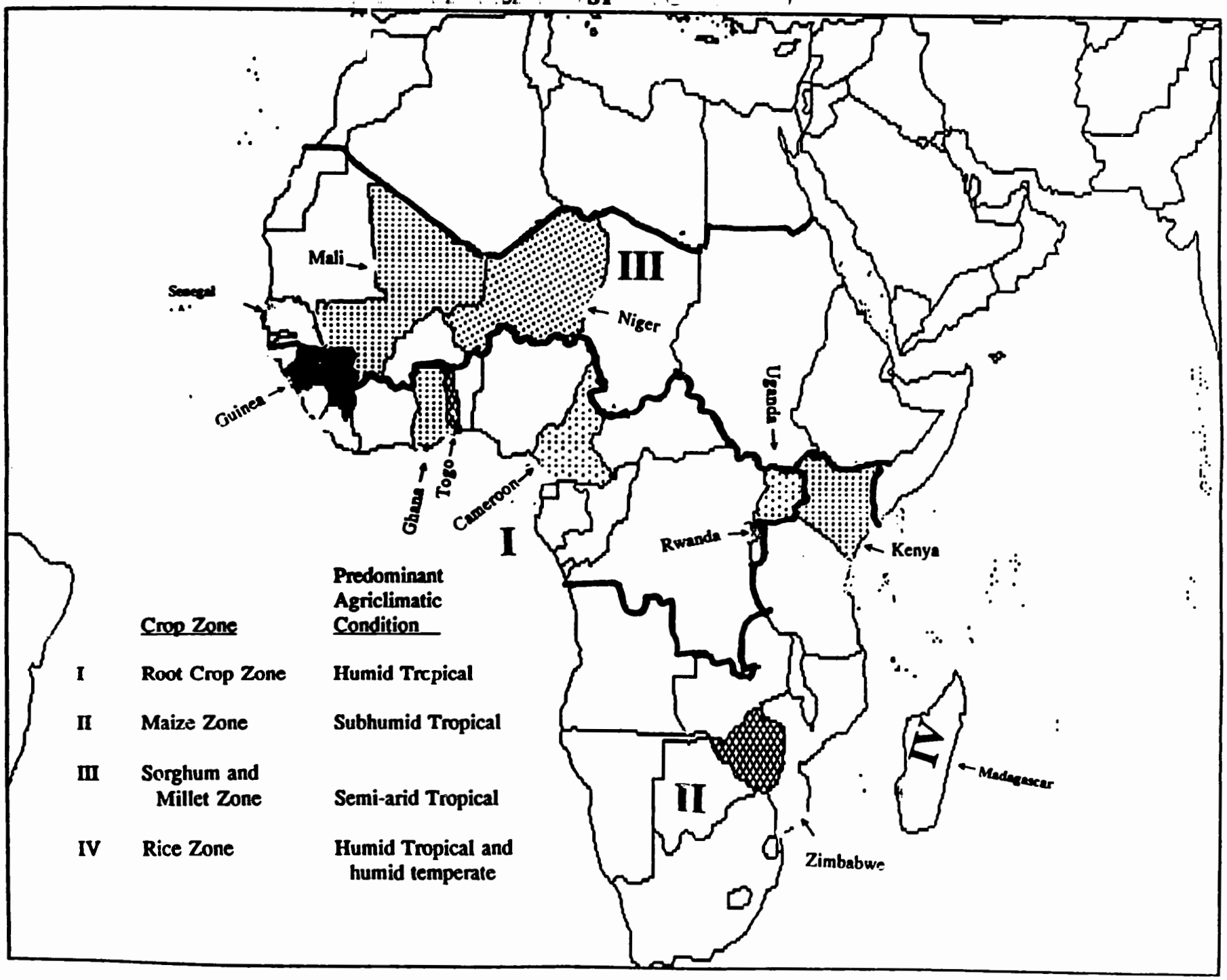
- **Market information and intelligence needs of agro-entrepreneurs**, particularly regarding intraregional market conditions and opportunities, and preferred dissemination media and formats.

- **Management and technical assistance needs of agro-entrepreneurs.**

- **Preferred trade and investment promotion organizations**, and monitoring of the experience of A.I.D. agribusiness promotion programs and institutions.

- **The best way to organize agro-entrepreneurs so that they exercise voice and are able to receive (and pay for) needed services.**

ARTS/FARA can provide substantive leadership in carrying out, and where suitable contracting out, analytical work for USAID Missions in Sub-Saharan Africa. It can serve as a repository of analytical studies, data sets, significant lessons and agribusiness expertise in the Africa Bureau.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Kenya
Madagascar
Zimbabwe
I
II
III
IV
Crop Zone
Predominant Agriclimatic Condition
I Root Crop Zone Humid Tropical
II Maize Zone Subhumid Tropical
III Sorghum and Millet Zone Semi-arid Tropical
IV Rice Zone Humid Tropical and humid temperate

1. Introduction

This paper is the final deliverable in an AFR/ARTS/FARA-funded buy-in to the Agricultural Marketing Improvement Strategies Project (AMIS). AMIS is assisting ARTS/FARA in formulating a strategic and analytic agenda for the Africa Bureau and A.I.D. missions in Africa in agribusiness, using the Africa Bureau's A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa (January 1991).

This paper is based on a literature review carried out in Washington in early FY 1992, AMIS Project field experience in Sub-Saharan Africa since 1988, and focused field research in five African countries in the first half of 1992. In the initial desktop review, we examined approaches to agribusiness and agricultural marketing development used by twelve USAID missions since 1985, and lessons learned from the USAID-funded (and to a lesser extent, other donor-funded) projects and programs in agricultural marketing and agribusiness. In five of those countries (in italics), AMIS staff conducted focused reconnaissance trips during the March-July 1992 period. The twelve countries are classified tentatively as follows:

- Francophone Sahelian: *Mali, Niger*, Senegal
- Subhumid/Semi-Arid Coastal West Africa: Guinea, Togo, *Cameroon*, Ghana
- Anglophone Southern Africa (with strong state intervention): Zimbabwe
- Anglophone East Africa (with high-potential production zones): *Uganda, Kenya*
- Landlocked, Population-Dense, Central Africa: Rwanda
- Tropical/Temperate Island: Madagascar

AMIS staff also drew upon previous and ongoing AMIS work, as well as other professional experience, in most of the twelve countries. Discussions with knowledgeable A.I.D./W staff also proved invaluable. Finally, the authors gratefully acknowledge inputs from Russel Backus (review of Mission APIs, April 1991), a matrix of USAID agricultural marketing and agribusiness activities by Mission developed by Charles Morgan (January 1991), and Thomas Herlehy's excellent review of USAID/Uganda's agricultural non-traditional export promotion program (October 1991).

The paper is organized into two major parts: a summary and synthesis; and twelve country annexes. The summary part of this paper draws heavily on the country annexes in presenting the following:

- Chapter 2: Characteristics of the African countries selected for examination.

- Chapter 3: Approaches employed by USAID (and to a much lesser extent, other donors) in promoting agricultural marketing and agribusiness in African countries, particularly since 1985.[1]

- Chapter 4: Lessons learned from A.I.D.-funded policy reform, programs and projects in agricultural marketing and agribusiness, with special attention to public sector efforts to improve agricultural marketing systems, providing an environment conducive to agribusiness development.

- Chapter 5: Lessons learned from USAID and World Bank programs and projects worldwide in support of private sector agribusiness development.

- Chapter 6: Lessons learned from USAID programs and projects in support of domestic agribusiness development and intra-regional trade.

- Chapter 7: Indicators of agricultural marketing and agribusiness performance, essentially refining those indicators presented in the Strategic Framework.

- Chapter 8: Information and knowledge gaps and needs faced by USAID missions and private sector agro-entrepreneurs in Africa as they become increasingly involved in agribusiness projects and programs.

- Chapter 9: Elements of a strategy for promoting agribusiness investment and trade in Africa. Key issues to be addressed by ARTS/FARA as an analytical agenda in support of missions' efforts to promote agribusiness development.

Note that Chapters 3 and 4 focus largely on A.I.D.'s assistance to African governments in policy and regulatory reform, parastatal restructuring, and providing facilitating services to private sector agricultural marketing, such as market information systems, marketing credit and road improvements. Those readers who are not interested in the analytical review of public sector efforts to improve the enabling environment, carry out agricultural marketing policy and regulatory reform, and facilitate the development of the private agribusiness sector are advised to skip both Chapters 3 and 4.

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[1] The interested reader is referred to Timothy J. Mooney's USAID Agribusiness Activities in Africa, 1970-1985, prepared for A.I.D./W's former S&T/RD/EED office in 1986, for a comprehensive review of A.I.D.'s earlier programs.

2. Characteristics of African Countries Selected

Exhibit 1 lists the twelve countries selected for review in Phase I and attempts to classify them according to a number of key variables: size and location; degree and rate of urbanization; income level; importance of agriculture in the economy; debt burden; policy environment; inflation rate; exchange rate; official development assistance (ODA) per capita; and chief agricultural exports. The countries selected represent a cross-section of African countries with short-term potential for agribusiness development. Several countries were selected because USAID Missions are currently programming resources for agribusiness development.

Exhibit 1 does not include institutional variables, and these do not lend themselves well to quantification. An authoritative analysis of the importance of institutional factors in the emergence of competitive and efficient commercial agriculture[2] underscores, however, the significance of the following:

- Well-defined and enforced property rights;
- Development of an effective legal system;
- Contract law, contract inviolability, and effective sanctions for non-compliance;
- Development of a commercial code; and,
- Government policy and regulatory environment that fosters investment and entrepreneurship.

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[2] See Cynthia T. Morris and Irma Adelman, Comparative Patterns of Economic Development, 1850-1914, Johns Hopkins University Press, Baltimore, 1988.

EXHIBIT 1
KEY ECONOMIC INDICATORS

	Cameroon	Ghana	Guinea	Kenya	Madagascar	Mali	Niger	Rwanda	Senegal	Togo	Uganda	Zimbabwe
Population (millions)	11.7	14.9	5.7	24.0	11.7	8.5	7.7	7.1	7.4	3.6	16.3	9.8
Area (thousands of sq. km)	475	239	246	580	587	1,240	1,267	26	197	57	236	391
Annual Population Growth Rate[1]	3.0%	3.4%	2.5%	3.8	3.0%	2.5%	3.3%	3.3%	2.9%	3.5%	2.5%	3.4%
Urban Population Growth Rate[1]	5.1%	4.2%	5.7%	7.9%	6.4%	3.7%	7.7%	8.0%	4.0%	6.9%	4.4%	5.9%
Urban Population/Total Pop[2]	41%	33%	26%	24%	25%	19%	19%	8%	38%	26%	10%	28
Per Capita GNP[2]	960	390	440	37	230	270	310	310	710	410	220	640
Average Annual Growth in GDP[1]	2.3%	3.0%	4.4%	4.2	1.1%	4.0%	-1.3%	1.0%	3.0%	1.6%	2.8%	2.9%
Inflation Rate[1]	5.6%	42.5%	–	9.2	17.1%	3.0%	2.9%	3.8%	6.7%	4.8%	107.0%	10.8%
Debt Service (% of Exports)[2]	21.5%	34.9%	8.3%	33.8	47.2%	11.5%	24.1%	14.5%	20.4%	14.1%	54.5%	22.6%
Agriculture Contribution to GDP[2]	27%	48%	28%	28%	33%	46%	36%	38%	21%	33%	67%	13%
Major Agricultural Exports (in order of importance)	Cocoa Coffee Cotton	Cocoa Coffee	Oilseeds Coffee Cocoa	Cotton Tea Coffee Maize Hort. Crops	Coffee Vanilla Cloves Pepper	Cotton Live-stock Mangoes	Cowpeas Hides & Skins Onions	Coffee Tea	Peanuts & Oil Cotton Fish Hort. Crops	Cotton Cocoa Coffee	Coffee Cotton Tea Fish Maize	Cotton Tobacco Sugar
Policy Reform Rating[3]	Strong	Strong	Strong	Mixed	Strong	Improv-ing	Strong	Not Rated	Strong	Mixed	Strong	Mixed
Exchange Rate (ER)[4]	Pegged; CFA	Deval./ Float	Deval.	Deval.	Deval.	Pegged; CFA	Pegged; CFA	Deval./ Float	Pegged; CFA	Pegged; CFA	Deval./ Float	Deval./ Float
ER Divergence (official/market)[4]	–	< 0.5%	–	1%	–	–	–	Negl.	–	–	>20%	5%
ODA per capita (dollars)[2]	41.2	31.2	51.0	41.4	32.8	56.0	46.7	40.3	99.8	57.8	34.1	35.0

[1]1980-1990 [2]1990

[3]Based on the World Bank/UNDP report, Africa's Adjustment and Growth in the 1980s, modified and revised according to collective judgement of authors of this study.

[4]In nearly all cases, the CFA is overvalued relative to other currencies. Exchange rate is either CFA and hence pegged, or progressively devalued. The divergence between official and market rates (as of August 1991) is one indicator of how well the exchange rate adjustment process has been managed (Source: IMF, International Financial Statistics).

3. USAID Approaches to Agribusiness and Agricultural Marketing Development

The Technical Annex to the Strategic Framework discusses seven different, though in some cases related, approaches to agricultural marketing and agribusiness development. Exhibit 2-A classifies the experience of the twelve African countries investigated during Phase I according to the approaches laid out in the Strategic Framework. Note that this is a first cut, based on our review of available documentation; it reflects our understanding of USAID mission program emphases in the recent past, yet not necessarily a complete picture of very recent and new program thrusts. Exhibit 2-B is a synthesis of strategic approaches used by USAID missions, following the Strategic Framework's tripartied classification of broad strategic thrusts to promotion of more efficient and competitive agricultural marketing systems.

3.1 Defining Agribusiness

The term "agribusiness" as used in this paper refers to those enterprises engaged in agricultural marketing—defined as operations which add value to an agricultural product through delivery of inputs to producers or processors, collection and transformation of the product, or trading operations—and/or agricultural production (commercial farming, contract farming).[3]

Many USAID missions have programs and projects which deal with some aspect of private sector agribusiness development, though that term may not be used. Objectives of some of these activities are:

- fostering competitive domestic markets;
- private sector investment promotion;
- rural enterprise development;
- agricultural marketing improvements;
- non-traditional export promotion;
- private enterprise employment development; and,
- increased rural income/wages.

Other mission programs and projects indirectly support agribusiness development, such as:

- infrastructure improvement (roads, telecommunications);
- education and training, and job skills improvement;
- financial market reform;
- market liberalization and privatization;
- legal and regulatory policy reform; and,

[3] In its broadest sense (not used in this paper), agribusiness may also include enterprises or organizations which support agribusiness such as transporters, banks, warehousing companies, consulting firms, accounting firms, futures markets, trade associations, research organizations, and advertising firms.

- domestic savings mobilization.

Thus an A.I.D. program or project with agricultural marketing, rural enterprise development, or agricultural export promotion objectives could be considered an agribusiness activity. On the other hand, agribusiness might be only one part of a broad A.I.D. private sector development program which was not limited to the agricultural or rural sector.

3.2 Major USAID Agricultural Marketing Program Thrusts During the Late 1980s

This section examines a broad range of policy reform, program and project interventions, some of which have an indirect impact on agribusiness development. This is deliberate in that few of the mission portfolios had prominent or explicit agribusiness activities during the second half of the 1980s. During the 1980s, A.I.D. focused on creating an enabling environment for agribusiness growth, as did the World Bank and other key donors. This initial phase of adjustment and correcting/offsetting of the statist tendencies of African governments that discouraged private investment and entrepreneurial activity in the agricultural sector was necessary, given the failures of many agricultural projects and programs during the 1970s and early 1980s. Key components of this effort included macroeconomic and agricultural sector policy and regulatory reform; the dismantling, scaling back and redefining of the roles of parastatal agencies; and creation of a positive investment climate.

By the end of the 1980s, these efforts were beginning to pay off, and the donors began to shift their attention to promoting agribusiness investment and growth in African countries. This is not to say that policy and regulatory reform and parastatal restructuring are complete and fully successful in all of the twelve study countries. Further attention to implementation details and careful monitoring and evaluation of impact are required. Nevertheless, a subtle shift in A.I.D. is underway, whereby missions in Africa are beginning to emphasize agribusiness development relatively more than policy reform. This paper will focus primarily on ways in which the Africa Bureau can most effectively support agribusiness investment and growth in Sub-Saharan Africa. Given the relatively thin experience of A.I.D. in promoting agribusiness development in Africa, our recommendations are tentative, draw heavily on A.I.D. experiences in other regions (principally the Latin America and Caribbean region), require further field investigation and testing of recommended approaches, and need to be analyzed and discussed in more depth. We will set the stage for our specific recommendations by reviewing A.I.D. experience in agricultural marketing broadly.

Exhibit 2-A classifies the essence or principal thrust of recent USAID mission approaches to agricultural marketing and agribusiness interventions. We recognize that it is possible to classify most countries in multiple approach categories. In cases of multiple approaches, we have rank-ordered the importance of approach by individual country, using our understanding of mission portfolios at this point and our best collective judgment. As an example, Mali 1 is the marketing policy approach, which shows that the Mission has placed highest priority in this

EXHIBIT 2-A

EXAMPLES OF USAID APPROACHES TO AGRIBUSINESS AND AGRICULTURAL MARKETING DEVELOPMENT [4]

Marketing Policy Approach

- Cameroon 1: Fertilizer Subsector Reform Program, Programs of Reform of Agricultural Marketing (PRAMS I and II), and Program for Policy Reform in the Export Processing Sector (PREPS) driven by policy reform agenda in Cameroon.

- Ghana 1: Economic Reform Program focused on alleviating policy and regulatory constraints to agricultural marketing, and on reforming the investment code and bureaucratic process affecting private sector trade and investment.

- Guinea 1: Policy reform emphasized under Africa Economic Policy Analysis Project (AEPRP).

- Kenya 1: KMDP program driven by maize and bean market reform thrust and supported by key donors (IBRD, EC, AID).

- Madagascar 1: Policy reform through privatization of SOEs, price decontrol and export liberalization.

- Mali 1: Cereals marketing policy reform to reduce SOE role and facilitate private trade. Reduction of export trade restrictions (export taxes, regulatory hurdles) for key export commodities (e.g. livestock).

- Niger 2: Commodity subsector studies funded by NEPRP and focused on policy and regulatory reform constraining exports.

- Rwanda 1: Recent shift in USAID support (as part of SAL) to reform of price policy, exchange rate policy and macroeconomic variables affecting business. Some regulatory, business registration changes.

- Senegal 1: Support to New Agricultural Policy agenda since 1984 and contribution to multi-donor Common Fund managing food aid and coordinating assistance to the agricultural sector.

- Togo 1: Policy reform to liberalize maize export regulations and reduce parastatal TogoGrain control of prices and surpluses.

- Zimbabwe 1: Policy reform in grain marketing, featuring restructuring of some aspects of the system and moving toward a more competitive, lower cost system.

Marketing Functions Approach

- Cameroon 3: Fertilizer privatization program and coffee/cocoa reform programs (PRAMS I and II) have become heavily involved in management and supervision of the reform process, with special attention paid to design of key functions (e.g., credit, contracting, distribution).

- Guinea 3: Support investments in transportation infrastructure to lower costs of agricultural marketing.

- Kenya 2: KMDP provides TA for strengthening of public market information systems and public sector capacity to select roads for upgrading, as well as local contractors who do the work. Credit provided to rural agro-entrepreneurs under Rural

- Mali 2: Credit to cereals traders and staple crop market information systems. Technical assistance to livestock sector.

- Rwanda 2: Transfer of management and business skills to agribusiness participants; direct TA to improve efficiency of requesting agroindustries.

- Senegal 3: Implementation of the Agricultural Production Support project terminated after poor performance in initial stages. APS sought to strengthen private distribution of agricultural inputs.

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[4] The list of approaches is taken from A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa, a guidance document developed by AID/AFR/TR in January 1991 and distributed to USAID Missions in Africa. The approaches to agribusiness and agricultural marketing are identified as common in AID projects.

- Togo 2: Technology transfer, input distribution, marketing and financial systems, credit in support of SMEs under Togo Rural Institutions and Private Sector Project (TRIPS).

Institutional Approach

- Cameroon 2: Institutional Analysis and Design Framework (IAF) used in design of PRAMS II to examine the structure of incentives within Cameroonian organizations, and the broader institutional framework of laws, property rights and contracts. Principles of IAD applied to fertilizer privatization program, although program design predated Mission's commitment to IAD.

- Ghana 2: Emphasis on privatization and commercialization of agricultural marketing, requiring liquidation of many SOEs. Also encouragement of small-scale producers and marketing firms.

- Madagascar 2: Preparation of analyses and action plans for privatization of SOEs, such as SOMALAC (rice marketing/processing).

- Mali 3: Reorganization of OPAM, grain marketing board, from statutory monopsony to role of residual buyer, maintainer of a national food security stock, and collector and disseminator of cereals market information.

- Uganda 2: Cooperative Agriculture and Agribusiness Support Project focuses on institutional development in the public and private sectors.

Commodity Systems Approach

- Niger 1: Commodity subsector studies leading to design of umbrella agricultural marketing project. Agricultural Marketing and Export Promotion Project, based on findings of these studies, is at PID stage.

Agribusiness Approach

- Ghana 3: As the institutional approach declines, Mission shifting to active promotion of trade and investment (under TIP program). TIP promotes exports and provides management training and credit.

- Guinea 2: Private Agribusiness Preparation Project (1985-1990) and Agricultural Marketing Investment Project (1992-1996) focus on development of a private sector service institution to help entrepreneurs obtain access to credit, provide critical business services, implement training, and build private sector capacity to engage in dialogue with the public sector.

- Kenya 2: Agricultural Management Project seeks to improve management capacity and operational performance of private firms and selected SOEs. Rural Private Enterprise Project provides credit to small and medium-scale firms in rural areas and agribusinesses through private banks, as well as grants and technical assistance to PVOs working with rural enterprises. Kenya Export Development Support Project will strengthen exporters' capacity, including agribusiness exporters.

- Rwanda 3: Identification of non-traditional commodities for new business creation; training and TA targeted at specific commodity/industry participants as a group. Generic assistance under Rwanda Private Enterprise Development Project shifted to commodity/firm specific assistance.

- Uganda 1: Non-traditional export program is working with individual exporters to expand opportunities for export of a wide range of commodities to regional and international markets.

Food Security Approach

- Mali 4: Funding and TA to CESA/MSU to examine rural household grain transactions, determinants of food security.

- Niger 3: Comprehensive, in-depth surveys of rural households in Western Niger over a three-year period by IFPRI.

- Rwanda 4: FSA project studies of producer and trader grain and bean marketing, trade, and food security policy.

- Senegal 2: MSU strengthened analytical capacity at ISRA under the Agricultural Research and Planning Project/Senegal Agricultural Research II (1982-92) and FSA (1986-89). IFPRI has also built upon this foundation to continue studies of producers and traders of staple crops.

- Togo 3: Food security issues remain key to determining export surplus levels.

- Zimbabwe 2: Many of the food security issues being researched are in fact agricultural marketing and agribusiness issues.

Market Town Development Approach

- Kenya 3: Considered in early KMDP design and rejected. RHUDO/ESA and USAID/Kenya funds used to upgrade Karatina wholesale market in Central Province.

- Niger 4: Market town study of Maradi and Dosso funded by RHUDO/WCA and USAID/Niger.

EXHIBIT 2-B : THE AFRICA BUREAU'S STRATEGIC APPROACH TO PROMOTION OF MORE EFFICIENT AND COMPETITIVE MARKETING SYSTEMS [5]

- **Policies and Regulations**
- **Infrastructure**
- **Market Participants**

- Cameroon: Policy, regulatory and institutional reform are hallmarks of major Mission input marketing, cash crop marketing and export processing programs.

- Ghana: Economic Reform Program emphasis shifting to one of assisting market participants (especially exporters). Continued emphasis on privatization of SOEs.

- Guinea: Policy reform and agribusiness approaches are both important. Support to agricultural development through creation of *Centre national de promotion des investissements privés*, which provides advisory services, training, and technical assistance to the private sector. Mission is designing the Agricultural Marketing and Investment Project in FY 1992.

- Kenya: Emphasis was on improving agribusiness management capacity and rural enterprise performance (through targeted credit and technical assistance) of market participants during 1980s. During the early 1990s, KMDP will emphasize policy and regulatory reform in staple crop marketing, as well as investments in infrastructure (upgraded MIS and rural roads). The Kenya Export Development Support Project (KEDS) will provide technical assistance, market information and analytical support for policy reform from 1992 to 1996.

- Madagascar: Small USAID program to date has mainly targeted policy reform and undertaken some road building. Mission buy-in to AMIS, as of May 1992, is focusing on promoting exports of nontraditional commodities.

- Mali: Emphasis on policy/regulatory reform, empirical studies to strengthen the knowledge base on coarse grain production and marketing, and a restructuring of OPAM. Investment in soft infrastructure (market information) and some assistance to market participants through targeted credit programs. The Animal Productivity and Export Promotion Project (APEX) will strengthen delivery of animal health services and credit to producer groups, market information systems, and export promotion efforts.

- Niger: Focus on economic policy reform (NEPRP) and funding of specific commodity subsystems studies through 1990. During FY91 and early FY92, the Mission designed a project to promote onion production and improve marketing and export. NEPRP extension was designed in FY92 and will continue work on economic policy reform.

- Rwanda: Management assistance, business advisory services, and training to market participants under Rwanda Private Enterprise Program. Recent shift in USAID program emphasis to concentration on reforming policies and regulatory environment by buying into World Bank-led SAP.

- Senegal: Mission played a major role in supporting agricultural marketing and policy reform and in coordinating assistance with other donors. Significant investment in agricultural economics research, policy analysis, and policy extension has provided an empirical base for tracking the impacts of policy and regulatory reform.

- Togo: Maize marketing and trade policy reform under Cereals Export Liberalization in Togo program. Technical assistance provided to market participants under Togo Rural Institutions and Private Sector Project.

- Uganda: Mission has supported Export Policy Analysis and Development Unit (EPADU) through funding and technical assistance. Both the Agricultural Non-Traditional Export Promotion Project and the Cooperative Agriculture and Agribusiness Support Project have provided technical assistance and training to market participants (exporters and cooperatives).

- Zimbabwe: USAID is pursuing an analytically-driven policy reform process supported by technical assistance in agricultural marketing research and policy analysis. Mission planning private sector initiatives designed to help take advantage of policy reforms.

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[5] The strategic approach is recommended by the Africa Bureau's Strategic Framework for addressing agricultural marketing and agribusiness development. It consists of the three fronts of policy/regulation reform, infrastructure development, and development of market efficiency and effectiveness through enhancing the capabilities of market participants in a country's program portfolio.

area. Mali 2 (marketing functions approach) and Mali 3 (institutional approach) are lower priority approaches.

A striking finding of our attempt to classify mission approaches is that many USAIDs have placed high priority on marketing policy reform since the mid-1980s (see Exhibit 2-B). This emphasis stems from the conviction of donors and independent analysts that policy and regulatory reform were a *sine qua non* for promoting the emergence of competitive, efficient, and largely privately run agricultural markets. We share this view and believe that many Missions correctly identified constraining policies and regulations as a barrier to commercial agricultural development. In the short- to medium-run, policy and regulatory reform have proven indispensable, yet private sector response to the reformed policy environment and investment climate has not always been dramatic.

This limited response in turn has convinced many analysts that **policy and regulatory reform are necessary but not sufficient conditions for commercial agricultural development.** The factors underlying the often weak response of private agents to the new incentive structure are numerous, but some key ones are as follows:

- Policy and regulatory reform have not always been effectively implemented in practice, in part due to poor dissemination of information regarding the new rules of the game, but also due to the unwillingness of key stakeholders in the *status quo* to accept liberalization. Those government officials in positions where they have been able to allocate privileges administratively and extract rents may in extreme cases need to be bought off. As the political systems in African countries become more open and democratic, political pressure can also be brought to bear on key stakeholders to minimize sabotaging of reform efforts, backsliding, and rent-seeking behavior.

- In countries where the private sector had been harassed, legislated out of existence, and discouraged from investing in the agricultural sector, private sector response to the new policy and investment climate has necessarily been restrained. Agriculture in Africa is inherently risky and historically has been fraught with policy and regulatory uncertainty; entrepreneurs prefer to invest in non-agricultural enterprises with surer, less variable and often higher returns.

- In the case of many staple crops (grains, legumes, tubers), smallholders lack access to well-watered, fertile land, agricultural inputs on credit, improved agricultural production technology (e.g. animal traction, higher-yielding seeds), and support institutions which can deliver key inputs (and extension advice) on a timely basis.

- Privatization and divestment of cash crop parastatals, which have acted as statutory monopsonies, have been slow in many cases, due to the large stakes that these organizations have in the existing systems of agricultural production and marketing, and because marketing boards have historically generated significant revenues for African governments.

- Both formal and informal financial markets in African countries are, in most cases, thinly capitalized. Lenders are hesitant to loan scarce funds to agricultural enterprises (given the perceived risks), and they typically require collateral to be equal to or greater than the value of loans.[6]

Probably the best set of empirical studies of staple crop production and marketing in Sub-Saharan Africa in recent years was funded by A.I.D. and carried out under the Food Security in Africa Cooperative Agreement (FSA/CA) by Michigan State University and collaborating African institutions. FSA/CA undertook multi-year studies of farmer, trader and market behavior in four of the African countries investigated in the Annexes: Mali, Senegal, Zimbabwe, and Rwanda. In-depth, microlevel studies by IFPRI and the World Bank have also expanded the knowledge base on smallholder agriculture and staple crop marketing, which have influenced policy formulation in a number of countries. One positive sign in the early 1990s is that policy and regulatory reform have become much more of an analytically driven process since the early 1980s, when many donor agencies assumed that getting prices right would send the right signals to the private sector, which would have the capacity to respond.[7] The expanding empirical base in several African countries is in part responsible for this development. Improved understanding of the determinants of small farmer productivity, rural households' staple crop transaction behavior, staple crop traders' buying, storage, and selling practices, market price behavior over space and time, and the impact of policy reform on farmer and trader incentives, productivity and behavior at the microlevel have demonstrated to often skeptical policy-makers that public investment in applied research and policy analysis can have a significant payoff. USAID and other donor investments in the expansion of this empirical base are beginning to have demonstrable benefits.

3.3 Seeing Policy and Regulatory Reform Through

As foreign assistance priorities change in A.I.D./W, shifting away from broad-based policy reform to more focused trade and investment promotion programs, it is critical not to lose sight of the importance of policy and regulatory reform. Without an "enabling environment" and an agricultural marketing system structured with the right mix of incentives and sanctions, private investment in agriculture will be halting and idiosyncratic (in the sense that it requires special, non-replicable deals to be made between prospective investors and key government stakeholders). We strongly recommend that A.I.D. invest heavily in agribusiness promotion in only those African countries where significant policy and regulatory reform has already been undertaken or is well underway. In addition to the

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[6] Another problem with collateral is that there is no enforcement capacity to back up loan agreements, particularly with smallholders, in case of default. In such cases, collateral has no value, so banks are extremely selective in making loans.

[7] Prices in this context are broadly construed to include agricultural input and output prices, exchange rates, interest rates, and inflation.

extent to which policy reform has been initiated, USAID missions need to pay close attention to its rate and general direction, and whether there has been any backsliding. Those African countries that have resisted policy reform or been slow to implement reform programs, and in other ways undermined reform efforts should be eliminated from serious consideration for agribusiness trade and investment promotion support. Finally, good intentions and promises of future reform are not good enough, given the dearth of A.I.D. resources in the Africa Region.

It is important to note that there is often a large gap between African governments' rhetoric about complying with donor preconditions for policy and regulatory reform and actual implementation. Official decrees do not readily translate into changed behavior on part of field agents who implement new regulations or private actors who understand their rights and responsibilities. Informal and quasi-official fees and costs, such as requirements to use the services of licensed import-export specialists, often emerge when formal levies, such as export taxes, are removed. Hence, A.I.D. needs to be vigilant and to insist on careful monitoring and evaluation of policy and regulatory reform implementation and impacts. A.I.D. can complement the World Bank, which has funded the largest proportion of structural and sectoral adjustment programs, but which has often failed to monitor the progress and impacts of reforms on private firms.[8]

Looking carefully at FSA/CA research programs on food security in Sub-Saharan Africa also leads us to observe that there is considerable overlap and complementarity between the food security and the agricultural marketing policy reform approaches. FSA/CA studies have focused primarily on the behavior of producers, traders, and staple crop markets in countries where significant policy reform and change in market organization have been underway. The food security applied research has provided empirical evidence of farmer and trader response to policy and regulatory reform. In effect, FSA/CA studies have been, at the analytical level, a subsectoral and micro-level complement to macroeconomic, trade, and cereals policy reform programs.

3.4 A.I.D.'s Limited Experience in Agribusiness Promotion in Africa

Another striking finding of our attempt to classify USAID mission approaches to agricultural marketing and agribusiness in Africa is the limited number of mission programs that follow an agribusiness approach. USAID/Uganda's Agricultural Non-Traditional Export Promotion Program (ANEP) is the most notable exception, which deserves continued careful monitoring and evaluation (see Herlehy, 1991). Guinea is also an African country with potential to invest more heavily in production and export of non-traditional crops, despite a very poor infrastructure. ARTS/FARA has provided analytical and strategic assistance to USAID/Conakry in finalizing the design of the Agricultural Marketing and Investment

[8] In defense of the World Bank, it has created an entire research division to monitor and evaluate the Social Dimensions of Adjustment. Bank surveys focus on the household rather than firm level, however.

Project. In direct response to the heightened interest of A.I.D. in agribusiness investment and trade promotion, yet given the limited USAID track record in this area, field work during Phase II of this study for ARTS/FARA focused on A.I.D. options for promoting both domestic and foreign agribusiness investment to meet domestic market needs and export opportunities in a selected group of African countries.

4. Significant Lessons Learned from Recent A.I.D. Experience: Public Sector Efforts to Strengthen Agricultural Marketing Systems

This chapter provides a brief, selective overview of significant lessons from recent A.I.D. experience in supporting the capacity of African governments to facilitate agricultural marketing system development in Sub-Saharan Africa. The lessons are discussed by intervention type. **Those readers who wish to focus on AMIS's review of A.I.D.'s experience in promoting agribusiness development in developing countries, as well as our recommendations for both an agribusiness analytical agenda and an agribusiness trade and investment promotion strategy are advised to skip this chapter.** We feel strongly, however, that a balanced review of A.I.D.'s efforts to promote agribusiness development requires an examination of the evolution of A.I.D.'s program thrust during the past 5-7 years. This review will focus on staple crop marketing reform, market information systems development, institutional (i.e., parastatal) reform, promotion of private trade in staple crops, investing in and maintaining infrastructure, building local capacity, and technological innovation and technology transfer in agricultural marketing.

4.1 Incomplete Implementation of Marketing Reform

A key lesson learned from staple crop marketing reform has been that there are often gaps between government rhetoric and decrees and the actual implementation of reform programs. AMIS Project experience in examining the impact of policy and regulatory reform on livestock trade in the central corridor of West Africa (Burkina Faso, Mali, Côte d'Ivoire) suggests that private traders are typically poorly informed of the policy changes and their rights *vis-a-vis* government and uniformed agents. Livestock exporters are often illiterate and intimidated by government agents; some accepted paying informal fees in place of export taxes. In some cases government agents who are supposed to implement new regulations are ill-informed of their content and nuances; in other cases, implementing agents stand to lose considerable income in a liberalized, transparent marketing environment. Other agents exploit traders' ignorance by interpreting regulatory reforms to their advantage, insisting that the old regulations are still on the books, or ingeniously substituting new, fictitious fees or regulations when old ones have been struck down.[9] In the case of Sahel-to-coast livestock trade, removal of export taxes led to enforcement of old regulations on the books regarding mandatory exporter use of licensed intermediaries (Holtzman et al., 1991).

Lags in implementation of policy and regulatory reform were also evident in Kenya maize marketing. In Kenya, the progressive removal of interdistrict maize movement restrictions has

[9] In many francophone African countries, field officers of the customs service, Ministry of Commerce, the police and the *gendarmarie* take a strict constructionist view regarding the law and its interpretation. Unless they receive copies of the text of new laws or regulations, they continue to enforce regulations on the books.

been blocked by uniformed agents and district governments. In January 1991, the Kenyan Government (GOK) decreed that cereals producers and traders could move up to 44 bags (or nearly 4.0 metric tons) of maize across district lines without a movement permit (issued by the National Cereals Produce Board). In April 1992, this was expanded to 88 bags (or 7.9 metric tons) of maize across district lines. Empirical research findings show that traders continue to pay a fee which averages 20 K.Sh per bag to ship maize out of a district (see Argwings-Kodhek, 1992).

Given the gap between rhetoric and reality in implementation, USAID missions are strongly encouraged to monitor the impact of reform programs on the behavior and performance of producers and marketing agents. Where funds permit, in-depth, longitudinal surveys, carried out over more than one year, provide sufficiently detailed micro-level data with which to evaluate the effects of policy reform on participants' behavior. In other cases, where funding is more constrained, rapid appraisal (RA) or in-depth case studies can be used to track reform impact, although statistical validity may be compromised by small samples. In many cases, a combination of some formal surveys and periodic, focused rapid appraisals provides a useful balance between statistical rigor and an ability to identify emerging constraints and opportunities. Generally, collection of detailed flow data (on crop sales and purchases, flows, stocks at any given point, income) requires formal surveys, where respondents are visited at least once a month. RA can be used to examine changes in marketing system organization, special problems or opportunities, and apparent motivations underlying respondent behavior and changes in behavior, typically in a far shorter time horizon than formal surveys. Structured informal interviews allow researchers, as opposed to enumerators, to probe beyond a formal questionnaire, exploring promising avenues of inquiry.

4.2 Extending Knowledge of Policy Reform to Prospective Beneficiaries

A key factor underlying the gap between policy reform rhetoric and actual success in implementation is food system participants' knowledge of the details and implications of reform measures. Extension or dissemination of policy and regulatory reform measures to economic operators and lower-level field staff of government agencies is usually inadequate in Sub-Saharan Africa, though there are some examples of successful radio and newspaper diffusion (e.g., Kenya maize marketing reform). Using the radio to explain the implications of market liberalization for producers and marketing agents has proven to be an effective means of extending knowledge of policy reform. To be effective, radio messages need to be in several major local languages and broadcast periodically at times when the widest possible audience is listening. For example, farmers might be best targeted in the course of a popular agricultural extension broadcast. Traders are more likely to be listening in the evenings rather than during the day, when trading activities engage them fully.

4.3 Market Information

One way in which the public sector can assist the private sector in African countries is in collecting, analyzing, and disseminating improved market information. Typically, the

audience for public sector MIS (market information systems) is not private agents but government agencies. In many cases, public sector MIS units do a poor job in generating accurate data, processing it in a timely manner, interpreting it to policy-makers in a way that enables them to use market information in making decisions, and disseminating it in a clear and timely manner to policy-makers. In the short term, particularly in African countries undergoing significant policy reform, upgrading public sector MIS for use by government agencies is a high priority. Providing market information to the private sector in a reliable, timely way is far more difficult, because it requires the capability to transmit, process, and analyze data collected at markets rapidly and systematically, and then to interpret and disseminate market information quickly in an understandable form.

Probably the most successful USAID-funded public sector MIS in Africa has been implemented for the key staple crops (coarse grains, local rice) in Mali. The lessons for other African countries from this experience are numerous (see Mali Annex), but we emphasize the need to restrict commodity coverage and the number of data collection points. The MIS unit also needs to be housed within an agency that has a keen interest in using the market information (the food security agency OPAM in the Mali case). Strong effective demand for market information among other government agencies is also a prerequisite for successful and sustained implementation, unless the agency that runs the MIS can provide sustained funding on its own (which is very rare in the African context). Choosing and training a competent, credible local analyst to manage the MIS is also strongly suggested; periodic, specialized technical assistance can provide comparative perspective, meet specific training needs, and strengthen the overall effort. In the case where expatriate advisors set up and manage an African government agency's MIS, they need to be committed to training local analysts to take over. Finally, if private sector interest in and use of the MIS is desired, the agency setting up or upgrading the MIS needs to conduct prior interviews with private traders and firms about their information needs, uses, and preferences regarding market information content, format, and dissemination strategy. Following initial interviews, private agents need to be contacted periodically to obtain feedback on the effectiveness of changes or enhancements to the MIS.

In cases where one or more of the above requirements is not met, as in the MIS established in Kenya's Central Bureau of Statistics (CBS) during the late 1970s, elaborate market information systems will deteriorate, those who work in MIS units will lose sight of key objectives and supervision needs, and systems will become completely dysfunctional within several years. Complex MIS tend to unravel far more quickly than simpler ones. If effective public and/or private sector demand is lacking, public MIS will lose their purpose and sense of mission. Fortunately for the design and implementation of public MIS, there is greater public sector (and donor) demand for timely, high-quality MIS in the early 1990s than there has been in any period since Independence for many African countries. This is especially true for the staple food crops, whose trade is being decontrolled, yet which have great domestic importance given political and food security considerations.

4.4 Institutional Reform

Institutional reform is a broad and wide-ranging area, encompassing the following:

- Public agency restructuring, streamlining and divestiture, such as the numerous efforts to privatize parastatal organizations during the past 5-10 years.
- Liberalization or privatization of operations or practices (such as fertilizer importation or foreign exchange controls) that the public sector has dominated and run inefficiently.
- Higher-level reform of rules governing economic behavior, such as property rights, contract rights and responsibilities, and legal recourse.
- Specific rules governing economic exchange (or transactions), and the organization of particular commodity markets.

While there is an increasing appreciation of the pitfalls inherent in reform of institutions that affect agricultural marketing or the agribusiness investment climate, there is not always an accurate perception *ex ante* of realistic timeframes for reform, or of how government and donor agency management-intensive the process can be. The lessons learned from USAID/Cameroon's fertilizer privatization program are very instructive in this regard. USAID has had a seat on the technical advisory board which monitors the privatization process. The donor management-intensiveness of the Cameroon fertilizer privatization case serves as a model in one sense, but it also raises questions about institutionalization and sustainability of the reform process, and whether the donor role of "riding herd" on complex institutional reform programs is appropriate.

By implication, USAID/Cameroon appears to support strongly the notion that direct and intensive USAID participation is required for successful institutional reform. Several key Mission staff have played a very important role in several reform efforts: fertilizer privatization; coffee and cocoa marketing reform. While the dedication and persistence of key USAID/Cameroon staff has been admirable, the extent to which monitoring of institutional reform programs requires USAID staff with special characteristics and aptitudes may pose difficulties for sustainability. In recognition, USAID/Cameroon has set in place well-designed monitoring and evaluation systems to track progress in institutional reform. AMIS analysts have led annual assessments of the process, achievements, and impacts of fertilizer import reform.

In addition, promotion of the Institutional Analysis and Design Framework (IAD) as a necessary analytical tool for designing and implementing reform programs appears to be an attempt to institutionalize the IAD in Cameroon. Perhaps one essential measure of IAD institutionalization is the extent to which USAID/Cameroon trains local hire staff in using the framework to identify key issues in institutional reform, design reform programs, and monitor and evaluate their implementation and impacts. At this point, it appears that institutionalization of IAD is incomplete and that its application requires heavy expatriate technical assistance.

A loud and clear message in the marketing and policy literature of the past five years is that donor agencies must understand **the medium- to long-term nature of institutional reform.** The Cereals Sector Reform Program (PRMC) in Mali illustrates the benefits of staying the course; donors have collaborated for a decade in restructuring the cereals board OPAM, changing it from a statutory monopsony to a food security agency which maintains a strategic reserve and provides market information services to both the public and private sectors, financing empirical studies to monitor the impacts of cereals market liberalization and inform policy formulation, and providing financial assistance to the emerging wholesale trade in cereals through implementation of a targetted credit program. By 1988-89 OPAM was out of the business of trying to support a producer floor price, which had been set at too high a level to defend in the 1985-88 period, when successive bumper cereals crops were harvested. A vibrant private grain trade has emerged, which has even exported modest quantities in surplus years. Longitudinal Food Security in Africa Cooperative Agreement studies of grain producers and marketing agents, beginning in 1985, provided a strong empirical base on which to design a MIS in OPAM by 1988-89, which has been widely regarded as the most successful MIS design and implementation efforts funded by A.I.D. in Africa. The long-term payoff from patient, analytically-driven cereals policy and institutional reform needs to be heeded in Zimbabwe, where USAID is funding the Grain Marketing Reform Support Program in a country with a strong statist and socialist orientation (not unlike Mali in the 1970s and early 1980s).

A.I.D. officers and contractors who have become heavily involved in institutional reform efforts caution others to approach privatization and restructuring gingerly, and to not bother undertaking it without clear political commitment on the part of an African government and a donor commitment to long-term support, the establishment of clearly understood rewards and penalties to induce desired governmental performance, and monitoring and evaluation efforts.

Another lesson of the Cameroon experience in fertilizer privatization is that the economic conditions facing an African country during a particular period may strongly influence the willingness and speed with which reform measures are adopted. In essence, donors will have more leverage in pressing for market liberalization and privatization measures when an African government is in difficult economic straits. Without a compelling budgetary and economic rationale, some African governments, particularly the major stakeholders in institutions facing restructuring, will resist institutional reform and privatization programs.

A final lesson of the Cameroon fertilizer privatization and coffee marketing reform programs has been that institutional, policy and regulatory reform in one subsector may not lead to desired outcomes if constraints remain in place in related subsectors. The fertilizer privatization program was affected by coffee pricing and marketing policy. As fertilizer distribution was liberalized and fertilizer prices rose to market levels, coffee prices declined in international markets, due to the collapse of the International Coffee Agreement in late 1989. Late payments to coffee producers by the Cameroonian coffee marketing board further undercut incentives to producers to maintain their coffee trees well and use fertilizer. Fertilizer use declined overall in Cameroon with implementation of the import privatization program; informal

interviews with rural households also suggest that fertilizer was used increasingly on food crops as use on coffee declined (see Abbott, 1991).

4.5 Promoting Private Staple Crop Trade

Following or concurrent with programs of market liberalization, most African countries have tried to implement projects to support the emerging private trade. Many of these programs have encountered serious problems. One primordial problem is the uncertainty underlying reform programs. Private traders look for signs that policy reform will endure and that it is not merely a short-term expedient to shore up World Bank or other donor grants and loans. Policy and regulatory uncertainty is a major deterrent to private investment in post-harvest handling, storage, processing and transport technology. Without longer-term certainty of expectations regarding African governments' intentions, African agro-entrepreneurs will generally not make investments to enhance marketing system efficiency and lower costs. The continued operations of a staple crop marketing board, and uncertainty over its future role in marketing, tend to exacerbate the problem. As a result, traders will move staple crops short distances, hold crops in storage for very short periods or not at all, and not invest in improved storage. Short-run profit maximizing and risk minimizing behavior on the part of agro-entrepreneurs in many African countries is an adaptive response to restrictive business climates.

Getting businesses to change their outlook and make needed private investments is no easy task. Greater certainty of expectations regarding policy and regulatory reform is a necessary condition. Changing attitudes and skills of agro-entrepreneurs will take time, requires a stable policy environment, and will generally require technical assistance in the African context. Marketing agents will need to adopt strategic business planning and think in terms of return over time on investment (rather than focusing on short-run trading profits).

In addition to spreading knowledge of policy and regulatory reform, African governments need to get out the word on the availability of and benefits associated with programs complementing market liberalization. Otherwise, the benefits tend to be captured by the least needy and best-connected private firms, which are likely to be run by men and ethnic elites. One example of this was in the initial implementation of the cereals credit program in Mali, where a handful of Bamako-based grain traders received a disproportionate share of the formal credit provided under a Cereals Market Restructuring Program (PRMC) component (see Dembélé and Steffen, 1987).

4.6 Investing in and Maintaining Infrastructure

Poor infrastructure, particularly in transport and communications, can cripple private sector agribusiness investment and trade in African countries. Some countries are so hampered by dilapidated, inadequately maintained infrastructure that significant private agribusiness investment, particularly foreign investment, is unthinkable. African countries such as Chad, Zaire, and Sudan fall in this category. In some other African countries, such as Guinea,

Madagascar, and Tanzania, efforts to strengthen marketing systems may have limited impact if infrastructure is not upgraded.

Heavy donor investments in new infrastructure fell out of favor during the 1980s, given increasingly constrained donor resources, and a growing concern with poor performance of African governments in maintaining existing infrastructure. Investment in road infrastructure has become oriented more toward opening new feeder roads or upgrading secondary roads. Several USAID programs currently have or have recently had modest programs to expand the farm-to-market road network, including Guinea, Zaire, and Chad. **Under KMDP (Kenya Market Development Program), initiated in FY 1991, USAID/Kenya is providing significant resources for rehabilitation and construction of secondary roads to serve rural markets.** The technical assistance contract under KMDP technical and management support of improved road maintenance, and the establishment of improved Ministry of Public Works systems to identify priority roads for upgrading and maintenance, select local contractors to do the road work, and monitor private contractor performance.

Given current donor budgetary constraints, the current emphasis on infrastructure maintenance and public contracting of maintenance and road upgrading out to private firms is well-placed. Yet it may not be enough, particularly in African countries with badly deteriorating infrastructure (such as Zaire) and where areas with significant agricultural production potential face problems of market access. In recognition of this dilemma, **several USAID missions, including USAID/Uganda and USAID/Ghana, are supporting road construction in collaboration with the World Bank, through local currency generation.** Decisions regarding investment of scarce donor resources in infrastructure will need to carefully scrutinized. Key variables to consider are agricultural production potential and population density of areas with poor access, as well as the scope for settlement of farmers into higher potential production zones that become accessible with road improvements.

4.7 Building Local Institutional Capacity

The need to build capacity in the public sector in African countries became conventional wisdom and a matter of faith for the economic development community during the 1980s. One major lesson from A.I.D. evaluations of six economic policy reform programs in Africa was that "the development of the host country's capacity is important for long-run sustainability of policy reform" (A.I.D., Office of Evaluation, 1991). Some advocates of capacity building go so far as to argue that building of public sector capacity is an end in itself and should be the benchmark against which all A.I.D. contractor performance should be judged. Clearly, African countries and donor agencies invested too little in building local capacity during the 1960s, 1970s and the first half of the 1980s.

Several caveats to the generic prescription of building capacity need to be raised, however. First, it is nearly impossible to build effective and sustainable local capacity unless the incentive systems in public agencies are not far out of line with those in the private sector. In countries where private sector pay averages much more than two times what public employees

are paid on average for jobs of comparable management and analysis requirements, frequent and rapid turnover will typically characterize public agencies. No sooner than employees of public agencies are trained, they leave for higher-paying jobs in the private sector. Over time and across organizations, this becomes extremely dysfunctional. Among the countries that we examined, this problem was especially acute in Kenya. Donor agencies have invested a lot in strengthening GOK market information systems, only to see these systems fall into disrepair in large part due to the loss of key, trained technicians to the private sector.

Some proponents of capacity building argue that the real problem is that far more analysts need to be trained in African countries, so that over time the "pipeline" of degree-holders will become full and many recent graduates will have no choice other than to take lower-paying public sector jobs. This would seem to be a very costly and inefficient way to ensure that there are enough skilled and trained analysts working in public agencies. At a more fundamental level, the problem is really one of streamlining the public sector. By eliminating many jobs, particularly in cases where performance has been weak, African governments will presumably be able to pay higher salaries to those employees remaining. Government managers need to be able to penalize underperforming employees, and in the worst cases, dismiss them; labor laws do not permit this authority to discipline and fire in most African countries. Shrinking payrolls in absolute terms will also allow government agencies to invest more in equipment and supplies needed to enhance the productivity of the remaining employees.

It is also important to point out that simply training African analysts to the M.S. or M.A. level (and higher) is an imperfect indicator of local capacity. Trained analysts need challenging work environments, supervision, and on-the-job training. In many African countries, analysts are not challenged, not properly supervised, lack adequate equipment and operating funds (for supplies, in-country travel), and do not have an opportunity to improve skills on-the-job. An additional problem may be that degree programs outside of Africa do not adequately meet the needs of students from African countries. Analytical techniques taught at some institutions presuppose high-quality, easily accessible data, which can typically be formally modeled. In the short-term, these data either do not exist or are not available in many African countries. In many degree programs, African students do not have the opportunity to work on data sets or analytical issues that are most likely relevant to the African context. In many countries in Africa, the immediate challenge is to upgrade data collection, processing, and reporting capabilities, not to focus on esoteric modeling exercises that absorb scarce local analytical resources (and in many cases require a lot of expatriate assistance) and whose outputs may not be used or understood by local policy-makers.

The debate about building local capacity has centered on public sector capacity. For the most part, it has ignored private sector capacity building. Given the weak performance of many public agencies in Africa, the divergence in public and private pay scales, and the high rates of skilled employee turnover in many countries, this continued emphasis on building public sector capacity may be called into question. In many African countries, these problems are indirectly being addressed by strategic redefinition of the role of public agencies away from control organizations that perform tasks that the private sector is capable of doing to one of

regulation and facilitation of the private sector. This redefinition is usually accompanied by reduced public sector employment, including explicit incentive schemes to encourage some civil servants to retire (as in Mali under the Economic Policy Reform Program; see A.I.D., 1990). Presumably, by shrinking government payrolls, public agencies will be able to recruit, maintain and motivate smaller staffs by paying higher salaries to the remaining employees.

As African countries and donor agencies emphasize agricultural diversification and export markets increasingly, they will have to strengthen local private sector capacity to assess constraints to diversification and exports, identify export opportunities, improve foreign market intelligence, and handle the logistics and operations required to move agricultural products from domestic supply zones to international markets. Although much of the literature seems to assume that private entrepreneurs will emerge once policy and regulatory constraints are removed, this is a very naive view. **Private agents may express an interest in export marketing opportunities, but they rarely have the skills in production and marketing management, knowledge of export market opportunities, and financial resources to mount successful export enterprises. This is particularly true for non-traditional commodities, for which quality standards tend to be the most demanding.** It is less true of bulk commodities such as grain and traditional export commodities such as cotton and livestock.

4.8 Policy Reform as a Precondition to Successful, Widespread Agribusiness Development

A general lesson of A.I.D. experience is that African countries need to address policy and regulatory reform issues before promoting private sector trade and investment. This was a major finding of the Agricultural Non-traditional Export Promotion Project (ANEP) of USAID/Uganda. A negative investment climate with strong disincentives to private agribusiness operators is a fundamental constraint to agribusiness trade and investment. Once policy and regulatory barriers to market liberalization have been removed, other constraints to emergence of the private sector can be addressed.

An important lesson from many A.I.D. programs is that private sector response to policy and regulatory reform programs has been and will continue to be gradual and incomplete, as private agents remain uncertain as to continuity of liberalization and may be slow to change their behavior. Yet, as noted above, a shift in agro-entrepreneur orientation from short-run opportunistic behavior to the mindset of a modern businessperson will necessarily require market reform and a positive business climate.

Policy reform is generally cast in terms of African governments' meeting of conditions precedent. This essentially punitive approach has proven successful in getting African governments to make some major concessions, including abandoning statutory monopsony powers of certain parastatal organizations and removing export taxes. Getting African governments to play a positive role in supporting and facilitating private sector marketing and business activities will in most cases require more than the punitive stick, although this approach may continue to be needed to prevent backsliding and non-compliance on policy and regulatory reform.

One lesson from the experience of implementing policy and regulatory reform programs is that stakeholders in the *status quo* need to be compensated for loss of power and income (through incentive programs for early retirement, as in Mali) or dealt with in some way to counter their anti-reformist tendencies. Donor investment in monitoring and evaluation systems, which can track the effectiveness of government implementation of reform programs, can be used to make non-compliance explicit. Findings of government violation of the letter and spirit of reform programs can be well-publicized through presentation at joint public-private sector workshops and seminars, or through the news media. This can indirectly help to empower private traders and their representative associations, who are likely to become more aggressive in defending their rights *vis-a-vis* rent-seeking government agents.

4.9 Beyond Policy Reform: General Lessons from A.I.D. Experience in Promoting Private Agribusiness Development

As a complement to policy and regulatory reform, a number of additional steps need to be taken. Policy reform alone does not guarantee a positive private sector response to new market opportunities. Policy reform needs to be combined with complementary activities such as:

- dissemination of market information and intelligence (as in the Kenya Market Development Program);
- technical assistance to prospective exporters (as in ANEP, the Kenya Export Development Support Project, and the Agriculture Marketing Investment Project in Guinea);
- creation of export processing zones (or according enterprises outside EPZs special status, as done in the Program for Policy Reform in the Export Processing Sector or PREPS); and,
- provision of formal finance to improve trader access to working capital (as in the PRMC Credit component in Mali), or a guarantee fund which can cover in part the risks faced by commercial banks lending to agro-entrepreneurs (as in USAID/Guinea's AMIP).

Projects to support agribusiness development are likely to have higher success rates when private firms are required to put up at least some of the capital. This ensures rigor, dynamism and accountability among program participants, which is typically not present when beneficiaries do not make equity investments.

Training in general business practices can be an initial complementary measure to policy reform. However, a significant finding of USAID/Uganda's Cooperative Agriculture and Agribusiness Support Project, as well as ANEP, is that technical assistance, training, and market intelligence needs to be tailored rather than generic when trying to promote exports of specific commodities. Technical assistance to the emerging private sector can also be extended through

a variety of institutional alternatives, including credit unions, cooperatives and trade associations. Trade associations are a potentially useful institutional vehicle for empowering private traders to lobby for reform and support from donors and African governments, and for providing feedback on the implementation of market liberalization programs. The Agricultural Marketing and Export Promotion Project (AMEP) in Niger, which will be implemented beginning in FY 1993, will test the viability of working closely with trade associations.

Quite a few agribusiness trade and investment promotion projects and programs are coming on stream in USAID missions in Africa. Some create or strengthen public agencies that are mandated to assist exporters (such as AMIP, the Ghana Trade and Investment Promotion Program, ANEP I and II in Uganda, and the Animal Production and Export Promotion Project in Mali). Others are working through intermediary organizations which are in the private sector or have considerable autonomy (such as the OHV/DHV projects in Mali, AMEP in Niger, PREPS in Cameroon, and KEDS in Kenya). ARTS/FARA can provide a valuable service in monitoring and evaluating the implementation experience and impacts (in terms of agribusiness trade, investment and employment) of these different programs using different institutional arrangements.

4.10 Technological Innovation and Technology Transfer

A.I.D.'s track record in promoting technological innovations in agricultural marketing systems in Sub-Saharan Africa is slim, except in market information systems, policy analysis and management information systems. A.I.D. has invested significant resources in agricultural research on staple crops in Africa, but the long-expected "green revolution" has not materialized. One case of significant A.I.D. and other donor investment in agricultural marketing technology has been in improved storage technologies, which have not been widely adopted by producers and intermediaries despite significant funding for storage facilities throughout the Sahel.

The transfer of many types of agricultural marketing technology from the U.S. to Sub-Saharan Africa has failed in many cases because U.S. agricultural marketing, handling and processing techniques tend to be capital-intensive and therefore require significant initial investment. Many African countries cannot afford such techniques, which are not well-matched with African factor endowments, particularly in the case of staple crops produced for domestic consumption or intraregional trade. In most cases, such staple crops are relatively low in value, bulky and hence costly to transport, and most consumers lack the disposable income to buy high-grade and highly-processed products. Many African countries are better advised to borrow and adapt technology from other African countries or Latin American and Asian countries at similar (or slightly more advanced) stages of economic development.

AMIS and Appropriate Technology International (ATI) have assessed the economic viability of alternative technologies which are better-adapted to small-scale firms and operators (see Fischer et al., 1992). AMIS analysts have carried out studies of coarse grain processing in Senegal and Mali, where the adaptability and economic viability of small-scale mills and

dehullers have been assessed (see Holtzman, 1989 and Holtzman et al., 1991).[10] ATI has developed prototypes and examined the feasibility of coarse grain processing using animal traction and a bran-discharge hammermill (which dehulls, winnows and grinds grain in one processing run). Using locally available materials and artisans, ATI has also constructed and tested treadle pumps for irrigation and oil presses for processing oilseed crops. Small-scale, portable processing units are economically viable in many parts of rural Africa. The challenge lies in developing the local capacity to construct, repair, maintain and disseminate appropriate technologies.

A key analytical issue in thinking about upgrading marketing, processing and storage technology of African agro-entrepreneurs is how technology can be borrowed and adapted from other countries.[11] The important strategic issue is how African agro-entreprises can become more technically and operationally efficient, as well as competitive in domestic, regional and international markets. The conventional wisdom that marketing, processing and storage technology should be small- to medium-scale, and that technologies ought to be labor-intensive, making use of the seeming abundant factor labor, may not be valid in all country contexts or commodity subsystems. Technology scale and labor intensity will likely vary by region, depending on population density, density and quality of the road network, labor relative to capital costs (and labor costs in other countries and parts of the world), and the technical and operational efficiencies of technologies of different scales in the African context. Hence, a major technological issue for further investigation is the appropriate scale of post-harvest handling, transport, processing, and storage facilities to maximize efficiency and local value-added. The ultimate objective is to upgrade technology so that African agro-enterprises are able to compete effectively in regional markets against imports from outside of Africa, and in international markets against suppliers from other continents.

As the better-endowed African countries promote non-traditional exports more vigorously, the need for adoption, with perhaps minor modification, of state-of-the-art technology for producing and marketing higher-value crops becomes essential. In order to compete in international markets, African countries will need to meet the demanding quality and phytosanitary standards of high-income countries in the EC, Gulf States and North America. The AMIS Project has assisted USAID/Niger in the design of the Agricultural Marketing and Export Promotion Project (AMEP), which plans to provide technical assistance to private agribusiness firms in training and development of innovative, more efficient technologies for post-harvest handling and transformation of export commodities.

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[10] Interestingly, dehullers used increasingly on an experimental basis in Africa (Senegal, Mali, Botswana) were developed from a Canadian prototype. The prototype has been modified significantly to match local conditions, however.

[11] The discussion in this paragraph was inspired by some critical comments by a reviewer, Jeff Hill of ARTS/FARA.

An AMIS team has assisted ARTS/FARA in its design of a Strategic Framework for Agricultural Research in Africa to describe and analyze the role of agribusiness and its relationship with the public sector in agricultural technology development and use in Sub-Saharan Africa. This activity supports Africa Bureau efforts to encourage the increased contribution of local and U.S. agribusinesses to the goal of sustainable, broad-based, market-oriented growth of Sub-Saharan African economies. The Strategic Framework will improve USAID missions' and host country research policy-makers' ability to understand and make better informed decisions more confidently about the relative roles of the public and private sectors in agricultural research technology development and use.

As part of this examination of agricultural technology development in Sub-Saharan Africa, AMIS carried out five country studies of specific techologies used in key commodity groups (see Exhibit 3). The field studies describe and analyze current agricultural research technology use and development efforts, constraints, and possible mechanisms of fostering public-private sector collaboration. The lessons learned from these case studies will increase understanding of how to build effective collaboration between A.I.D. and U.S.-based agribusinesses in promoting sustainable, broad-based, and market-oriented growth of Sub-Saharan African economies.

The interested reader is referred to the forthcoming AMIS report Agribusiness and Public Sector Collaboration in Agricultural Technology Development and Use in Sub-Saharan Africa: A Synthesis of Field Studies by William Lesser for a summary of case study findings and significant lessons learned.

EXHIBIT 3

AGRIBUSINESS AND PUBLIC SECTOR COLLABORATION IN TECHNOLOGY DEVELOPMENT AND USE IN SUB-SAHARAN AFRICA: PROPOSED FIELD STUDIES BY TECHNOLOGY, COMMODITY AND COUNTRY

TECHNOLOGY	COMMODITY GROUP	COUNTRY
Seed	Cereals	Zimbabwe
Animal traction & sprayers	Cotton	Mali
Post-harvest handling	Fruits and vegetables	Ghana
Processing (feed)	Poultry	Kenya
Crop protection chemicals	Maize, cocoa, coffee, bananas	Cameroon

5. Lessons Learned from A.I.D. Promotion of Agribusiness Investment and Trade [12]

The A.I.D. Administrator recently announced a "Partnership for Business and Development" to strengthen ties to the private sector and "maximize the delivery of American ideas, technology, funds and know-how" to LDCs. A.I.D. policy-makers have also recognized the U.S. agribusiness sector as a valuable source of technology, management know-how, capital, and access to export markets — all of which are vital to the sound and sustained growth of agro-industries in LDCs. At the same time, the establishment and strengthening of individual LDC agribusiness enterprises is an effective way to increase employment and incomes in rural areas.

This chapter examines A.I.D. approaches to agribusiness trade and investment promotion in developing countries. It will emphasize A.I.D.'s experience, principally in South and Central America, the Caribbean Basin and Asia, in promoting foreign investment in the formal agribusiness sector to expand production of higher-value agricultural commodities for export to high-income markets. Chapter 6 will examine issues related to a second major program thrust of A.I.D. to promote agribusiness development and intra-regional trade. In this second approach, agribusinesses produce for the domestic market (import substitution) or export to markets within the same region.

5.1 A.I.D. Experience in Trade and Investment Promotion

Section 5.1 will summarize approaches taken and lessons learned from A.I.D.'s recent experience in trade and investment promotion in countries outside Sub-Saharan Africa. Section 5.2 will briefly summarize the experience of the Africa Bureau's Office of Market Development and Investment (changed to Office of Operations and New Initiatives in October 1991). Section 5.3 will discuss recent findings from World Bank Group research and review of private enterprise promotion.

5.1.1 The Choice of Approach to Trade and Investment Promotion

Approaches to trade and investment promotion vary according to the degree to which they are passive or active and the degree to which services are standardized or targeted. A Louis Berger International study identified three approaches[13]:

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[12] Chapter 5 consists of condensed and edited sections of a recently published AMIS staff paper by Richard D. Abbott and Christine Erbacher, entitled Agribusiness Trade and Investment Promotion: Engaging U.S. Agribusiness in the Process (March 1992). The review of World Bank experience was prepared by John Holtzman.

[13] Louis Berger International, Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean, Washington, D.C., May 1990. The report analyzed 15 trade and investment promotion projects in Latin America and the Caribbean, half of which were in agriculture and agribusiness and half in manufacturing of non-

- The **transmitter** approach assumes that lack of information is the main constraint and is relatively passive in that information is transmitted only on request. Emphasis is placed on policy development and research, database development, and market research.

- The **facilitator** approach is more active, providing multi-sectoral investment and export promotion services such as product promotion through trade shows, support to visiting investors, general business training, and general investor search services.

- The **promoter** approach is the most active in that it provides enterprise-specific assistance to a limited number of clients. It assumes that there are major constraints on local producers and investors, and that overcoming them requires substantial assistance in production and marketing.

We shall simplify the above three-way distinction into **two basic approaches**: a **traditional** one which is a combination of the transmitter and facilitator approach, serving a broad spectrum of clients with services mainly of an informational nature, and a **targeted** one which is enterprise-specific and provides technical assistance, active brokering of investor and trading contacts, and information services to a limited number of clients.

5.1.2 Importance of the Environment in Which Agribusiness Firms Operate

As discussed in chapters 3 and 4, the political/social, economic, and policy environments play a crucial role in the success of agribusiness trade and investment promotion projects. A project's structure and goals must match the constraints placed upon it by its environment. The more unstable the political/social environment, the more constrained the economic and policy environment, and the more deteriorated or undeveloped the physical and business infrastructure, the narrower the scope of activities and the objectives of the trade and investment promotion projects must be. In severely constrained environments, trade and investment (T&I) promotion projects should be delayed until the major constraints are eliminated.

5.1.3 Targeted vs. Traditional Approach

Either an enterprise-specific (targeted) approach or the more traditional one which concentrates on standardized assistance of an informational nature may be appropriate, depending on the policy and business environment in a given country and on A.I.D. goals and objectives there. **The traditional approach** reaches more clients for the same amount of money than does the **targeted approach**, and is most suitable for those countries where the major constraint to increased trade and investment is lack of information. A Nathan/Berger study of five promotional agencies in countries with favorable policy environments found that generalized promotional programs supplying information to local businessmen on foreign markets, and

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agriculturally based products.

production cost data to foreign investors, were highly valued by clients.[14] The rate of return to A.I.D. on its promotional expenditures was estimated at 20%, based only on increased employment. On the average, these programs produced a $5 increment in new exports for each $1 invested in promotion.

A targeted approach which provides services intensively to selected individual enterprises may be used in environments constrained, for example, by unsuitable government policies toward the business sector, low productivity, and little export momentum. These projects are more "developmental" in nature, since they typically provide technical assistance in post-harvest handling, processing, finance, management, or market development along with brokering of contacts with potential investors or buyers. The Berger study concluded that the more unfavorable the economic environment, the greater the need to target the project scope of services, product groups, and client groups. Projects such as CINDE-PIE (the Investment and Export Promotion Program in Costa Rica) and PROEXAG (the Non-Traditional Agricultural Export Support Project in Central America) utilized this strategy with good results, achieving a greater return in terms of the cost per dollar of investment generated and jobs created than an information dissemination approach would have done. The study further noted that "the more successful projects are effective at targeting and adjusting project services to the strengths and weaknesses of the economic environment, target group, and host country governments." In other words, a highly focused or targeted program can more easily be adjusted to fit unfavorable, uncertain, and changing conditions in constrained environments.

An advantage of the targeted approach is the demonstration effect of a successful project. The May 1990 Berger study reaffirms the importance of demonstrating early success in export development through intensive efforts as a way of gaining government support and industry interest in T&I programs. Targeting also tends to make the project more manageable since it favors more clearly defined objectives and tightly defined operational guidelines.

The targeted approach does, however, raise issues of equity. Fewer enterprises are assisted and costs per client served are considerably higher than the traditional approach. The size of the firm assisted is another factor, since often a project can achieve results faster by assisting a large firm which needs minimal help to export or attract foreign investment, than it can by working with several small firms which need a lot of help. In some countries it may not be politically feasible to serve a restricted clientele, particularly if they are large firms, rather than all business concerns in a given sector or subsector.

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[14] Nathan Associates Inc. and Louis Berger International published a report entitled Export Promotion and Investment Promotion: Sustainability and Effective Service Delivery in November 1990. This study had an institutional focus and looked at ten non-traditional export promotional institutions in four Latin American countries.

5.1.4 The Information Imperative

One of the major constraints in developing countries is access to reliable information, both on the local economy and on world markets. Local and foreign agribusiness entrepreneurs alike suffer from this lack of information. Most A.I.D.-funded trade and investment promotion programs in Latin America and the Caribbean have emphasized information generation and dissemination. This included distribution in high-income countries of information on trade and investment opportunities available in the assisted developing countries, and distribution within the latter countries of information on export markets. In Ecuador, an A.I.D. project established an information database on the non-traditional agriculture sector. An agroindustrial development project in Jamaica sought to institutionalize the sector information it generated in undertaking subsector profiles, targeted studies, and pre-feasibility studies.

The Nathan/Berger study emphasizes the **importance of information dissemination in trade and investment promotion and asserts that technical assistance is not always a necessity for promoting new sectors and products.** The study states that standardized, widely-disseminated basic information may have a greater total impact in some country environments than selectively providing intensive and costly technical assistance and investment promotion services. In attracting foreign firms to invest, the more widely investment opportunity information is disseminated, the more likely the country will be placed on firms' short lists for potential investment sites. Wide dissemination of information is equally important in reaching the greatest possible number of LDC firms with the production sophistication to export. The study acknowledges, however, that in the most constrained environments, highly targeted and intensive assistance will probably be necessary for successful promotional efforts.

5.1.5 On-going Technical Assistance

The importance of on-going technical assistance to resolve firm and industry-wide production problems has been generally acknowledged as a result of evaluations of many trade and investment promotion projects. This need has generated many technical assistance projects, as well as "incubator" projects which provide small entrepreneurs with the management support required to survive the initial establishment phases. For example, the PROEXAG project tried to strengthen the link between producer organizations in Guatemala and U.S. fruit and vegetable importing enterprises in order to facilitate the transfer of knowledge and the understanding of quality standards and market requirements. Particularly in constrained environments, post-investment technical assistance to new enterprises assisted by a T&I promotion program may be required to assure enterprise survival. A foreign joint venture partner is likely to be the best equipped to provide this assistance.

5.1.6 Local Supporting Institutions

Private sector organizations such as commodity, industry and export associations contribute to the institutionalization of the industry support structure, providing a vehicle

for public sector-private sector cooperation in such areas as market and crop research, training, export promotion and implementation, and other efforts which can benefit from economies of scale.

The PROEXAG project utilized such organizations to provide support in solving industry-wide problems such as disease control or variety adaptation, as well as to assist in the sharing of technical know-how between purchasers and producers/exporters. The Private Enterprise Promotion Project (PEPP) in Sri Lanka established the Sri Lankan Business Development Center (SLBDC) for purposes such as these. The NTAE-Ecuador project utilized a federation of exporters, FEDEXPOR, as an important information disseminator. In Chad, the Agricultural Marketing and Technology Transfer Project (AMTT) will establish (in 1992) an Agribusiness Support Center. As an input into the design of USAID/Niger's Agricultural Marketing and Export Promotion Project (AMEP), AMIS analysts recommended that the project strengthen the service role of the Chamber of Commerce and private producer and marketing associations.

However, the Nathan/Berger study issues a caution concerning the use of membership organizations for the implementation of promotion programs. Because they are interested in maintaining an extensive membership base, they will have difficulty focusing on the needs of a small number of its members.

5.1.7 Project Management

Trade and investment promotion projects need to have a single responsible organization with a narrow scope of activities in order to function successfully. Or, if a single organization is to manage a variety of activities, these can be set up in discrete branches of the organization with the conduct of day-to-day operations undertaken independently. These two formats allow a concentration of expertise and help to prevent the duplication of efforts or discord among various responsible institutions.

This lesson was learned by the PEPP-Sri Lanka project, which experienced poor working relations among its technical assistance providers and in some cases a mismatch of technical assistance needs and expertise. The Ecuador non-traditional export promotion project likewise experienced difficulty with too many actors participating in the information promotion activities and duplicating efforts.

Successful T&I programs require strong and intensive management by A.I.D. and contractor personnel. Continuity, flexibility, and technical expertise are at a premium. Projects may be less effective when A.I.D. managers do not allow for changes in objectives or strategies or for flexibility and spontaneity in response to immediate needs.

The A.I.D. PROEXAG project managers discovered early on that A.I.D. could not expect to have a complete and final schedule of activities and proposed expenditures a month in advance, due to the necessity of responding to emergencies as they arise. PROEXAG

management made allowances for this flexibility as it learned this lesson and so was able to respond to crises.[15]

5.1.8 Cost Recovery by Local Implementing Institutions

A common error made by A.I.D. promotion projects was the emphasis on the eventual self-sufficiency of the implementing institutions. This is often an unrealistic objective, due to the high cost of the assistance projects and the low level of development of the private sector in most of the countries in which A.I.D. operates. The costs of entry into new fields and new markets are too high to be covered by most sectors in developing countries. This is a point made repeatedly by the project evaluations covered in this study.

However, the Nathan/Berger study points out the efficacy of eventually using fees to assist in the allocation of services. While it is unrealistic to think that full cost-recovery would be feasible, recovery of the majority of direct costs of projects assisting indigenous industry is a possibility in the more advanced industries and countries. While external donors or the public sector can finance overhead, the information base, and a portion of the expensive directed technical assistance, most direct costs can be recovered from the organizations assisted, once the industry and the project is established. However, fees for investment promotion are less desirable, as it will be difficult to allocate expenses and may damage the project's or the country's image, as well as possibly result in the targeting of the least difficult sectors.

5.1.9 Project Time Frame

Another mistake made by A.I.D. agricultural export projects is the expectation of significant quantifiable results in a short time period. The institutionalization of non-traditional agricultural production and export expertise, and the realization of results from these entities, requires a time frame of perhaps five to ten years. Ending project assistance too soon can result in the dying of what could be a strong export industry but for a couple of technical difficulties for which there was no readily available expertise.

5.2 Experience of the Africa Bureau's Office of Operations and New Initiatives (ONI)

The Africa Bureau's Office of Operations and New Initiatives (AFR/ONI) has had a broad mandate to promote private sector growth in Africa. Although controversial, ONI activities broke new ground in T&I promotion; techniques used by ONI may — with some necessary modifications — be adapted for future use by the Agency. Among the unit's activities were the following:

[15] Interview with Pamela Diehl Michel and Diana Bejarano of Chemonics regarding Chemonic's experience with the PROEXAG Project, May 2, 1991.

- Co-sponsoring trade and investment missions to Africa with OPIC and A.I.D.'s Office of International Trade and Investment Promotion (ITIP);

- Supporting an African Development Bank-sponsored visit of prominent African businessmen and leaders to the United States to make contacts with potential investors;

- Financial support to the Africa Growth Fund (AGF), developed by OPIC, owned by a group of major U.S. corporations, and managed by Equator Investment Services Limited, an affiliate of Equator Bank. AGF provides 20%-45% of a project's total equity capital, ranging from $500,000 to $3 million, investing in African businesses with significant U.S. interests;

- Partially financing the African Management Services Co. (AMSCO), which provides senior management teams to African businesses for a finite period at competitive costs, delivering on-the-job training to top-level executives;

- Implementing the Africa Venture Capital Project (AVCP) with $7 million, providing technical assistance and underwriting initial operating costs for start-up of venture capital funds in Africa (implemented by Harvey & Co.); and,

- Co-financing the Africa Project Development Facility (APDF) with UNDP, IFC, and the African Development Bank, which assists African entrepreneurs in creating and locating funding for private-sector projects. ($400,000)

Agribusiness trade and investment promotion by ONI utilized funds from the Africa Private Enterprise Fund (APEF) and was carried out in part through an IQC consulting contract. Diagnostic studies and market analyses were first carried out in African countries to identify agribusiness investment opportunities. Investment profiles for potential new industries were then prepared. Next, "industry leaders" — CEOs of small and medium-sized U.S. agribusiness firms — with an interest in forming joint ventures or sourcing products in Africa were identified. These persons were then asked to lead missions to investigate the potential projects. Travel costs, and in some cases salary costs as well, were covered partially ("cost sharing") or fully by ONI. Under another provision, start-up costs for a joint venture were to be covered by ONI grants, provided the U.S. investor agreed to invest a stated amount in the joint venture. Grants for technical assistance and training services could also be made to U.S. companies with a stated intention to invest in a local enterprise.

ONI organized several trade and investment missions by U.S. firms to Africa, including Southern Africa (Malawi, Mauritius and Swaziland), Kenya and Ghana. ONI also held a conference in Washington on opportunities in countries visited by trade and investment missions, which was attended by representatives of 57 companies. Another trade mission went to Yemen, Cameroon, Benin and Togo. One result of these efforts was a joint venture in pharmaceutical manufacturing in Swaziland; other possible investments are pending.

An important lesson from the ONI experience is that a highly targetted approach, directly involving executives of smaller, aggressive U.S. companies, can foster joint ventures in Sub-Saharan Africa, particularly if supported financially by a venture capital fund. Laying the proper groundwork for exploratory trips (co-funded by A.I.D.) by these executives is essential. Well-prepared profiles of investment projects can provide this groundwork. Selection of participating companies must, however, be on an equitable basis. The availability of grant funds for this purpose needs to be widely published.

5.3 World Bank Group Approaches to and Lessons Learned from Private Enterprise Promotion

As structural adjustment programs have taken firm hold in many African countries, which are well on their way to creating an enabling environment for agricultural and agribusiness development, the World Bank has begun to shift its attention to ways in which private enterprise development can be stimulated and facilitated. This section will review the findings of several recent World Bank studies of private enterprise and export promotion.

5.3.1 The Role of Catalysts in Trade and Investment Promotion

A 1989 World Bank study[16] reviewed export success stories in eleven countries and called attention to the importance of **catalysts**. These are defined as:

> "an individual or company (domestic or foreign) or a public agency, or a combination of these, that (a) pioneered the process of development in an outward-oriented direction before anybody else in a sector, (b) packaged the needed know-how with domestic endowments and external financing, and (c) diffused the experience and know-how it learned in that initial development process."

The success stories included those in Colombia (flowers), Zambia (clothing), Honduras (condiments), India (small diamonds), Côte d'Ivoire (cocoa), Jamaica (garments), Guatemala (shoes), Hungary (software), Indonesia (plywood), Bangladesh (garments), and Brazil (aircraft).

In some cases, a local catalyst had the capacity to package the necessary technical, marketing, and managerial know-how with the capital to initiate the project. Where this was not the case, the role of the local catalyst was to attract a foreign catalyst with the capacity to do so. The transfer of technology, marketing and managerial know-how by transnational corporations is seen as even more important than the transfer of financial resources by these firms. The study goes on to note the importance of the "diffusion and learning effect" on other companies and entrepreneurs of the successful investment, even though this effect may

[16] The Role of Catalytic Agents in Entering International Markets, The World Bank Industry and Energy Department, PPR, March 1989.

not have been deliberate. Also, it seems that on-the-job-training carried out by foreign partners was a critical element in this success.

The study points out that given the critical role of the local catalyst, any development strategy should give great importance to cultivating these persons, and that lack of information about opportunities for collaboration between small and medium-sized local businesses and transnational corporations could be a major constraint on development. It goes on to note that "given initial conditions of large policy distortions and underdeveloped institutions, the developing countries studied here could rarely afford to wait until perfectly rational policy environments were achieved to promote development in an outward-oriented direction." Some policies were nevertheless important, such as unrestricted access to imported inputs at world market prices, financing at commercial rates, investment licensing, and realistic exchange rates. In some cases, exports were initiated even in the absence of these policies. In other cases, the catalyst succeeded in getting the government to implement rational policies.

The World Bank offers no special guidance in identifying catalysts, or prescriptions for donors in how to approach, encourage and support catalysts once they have been identified. By implication, the Bank approach is to create an enabling environment that will allow catalysts to emerge spontaneously. Perhaps one issue for further applied research and analysis would be for ARTS/FARA to develop a strategy for identifying catalyzing agro-entrepreneurs, supporting their efforts through providing information about foreign market opportunities and requirements and prospective joint venture partners, and replicating their successful efforts to other agricultural commodity subsystems. One possible approach, after a catalyst has successfully established an export-oriented enterprise, would be for the catalyst to establish a private consulting and brokerage practice that could assist budding agro-entrepreneurs in related subsectors or in the same commodity subsector in another African country. This assumes that the catalyst would be willing to diffuse special insights and knowledge to competitors. Another approach might be for donors and African governments to encourage catalysts to form and lead either private export-facilitating firms or export associations, which could effectively interact with governments and lobby for policy and regulatory reform and specific measures to facilitate agro-industry development.

5.3.2 African Entrepreneurs - the "Missing Middle"

In a 1990 International Finance Corporation discussion paper, Keith Marsden challenges the assertion in the widely-read World Bank study Sub-Saharan Africa: From Crisis to Sustainable Growth that medium-scale, formal sector African entrepreneurs are few and far between ("the missing middle"). Using 36 case studies of entrepreneurs as a base, Marsden identifies characteristics, problems and needs of the allegedly missing formal African entrepreneurial sector. **Marsden cautions against excessive enthusiasm for the informal sector**, whose flourishing at the expense of the formal sector is typically evidence of policy and regulatory dysfunctions and entrepreneurs' attempts to adjust to distortions and inequities. As a promoter of African entrepreneurship, Marsden argues . . .

"that whatever outside assistance entrepreneurs need to run their businesses and overcome problems—information, advice, technology, services, or finance as well as physical inputs—can be obtained from other entrepreneurs through market networks. These networks exist and are more effective than the technical assistance networks operated by government institutions and NGOs. But, these advocates say, these market networks could be strengthened and African entrepreneurship more effectively fostered, if tax and regulatory policies were more supportive of entrepreneurs, if foreign private investment and foreign-African partnerships were promoted, and if a higher proportion of foreign aid funding were channeled to the modern private sector." (pp. 3-4)

From the 36 case studies and other research, Marsden draws the following conclusions:[17]

- Although statistical coverage is incomplete, **there is a layer of modern African entrepreneurs lying between the informal sector and large foreign-owned or state-owned enterprises.**

- **Prospective modern entrepreneurs are "waiting in the wings,"** formulating plans for creating new formal sector enterprises and searching for sources of finance and technology.

- **Informal enterprises can be transformed into modern formal sector enterprises.**

- **The informal sector is typically not a source of economic dynamism**; rather working conditions are poor, training is inefficient, and knowledge of increasingly sophisticated technology is lacking.

- The IFC-led APDF (Africa Project Development Facility) has collected and analyzed data which show that the **modern African entrepreneurs are efficient in operating their enterprises and demonstrate good judgment and business sense when making investments for expansion, modernization or diversification projects.**

- **Market networks exist for information and services.** Private consulting firms are carrying out feasibility and market studies "because experience has shown that they do a better job than public planning institutions or voluntary organizations." (p.14)

- In many cases modern African entrepreneurs obtain information and advice free of charge, because **"transfer of know-how is a normal feature of commercial**

[17] Note that much of the text in the following paraphrased points is taken directly from Marsden's paper.

relationships, included in the price of physical products or services being exchanged in commercial transactions. Dissemination of information is seen as a means of reinforcing commercial linkages and is motivated by mutual self-interest. Information flowing through market networks is usually relevant and useful because market participants have specialized experience acquired in competitive markets." (p. 15)

- **Tax reductions and deregulation are effective in promoting African entrepreneurship.** Despite some progress on these fronts in Africa, many African countries have a long way to go before their enterprises will be able to compete with Asian or Caribbean enterprises, which have enjoyed low-tax, regulation-free export regimes for some time. High rates of taxation imposed on profits, dividends and personal income constrain the ability of private African enterprises to finance investment through accumulated earnings.

- **Foreign firms can strengthen African enterprises by providing new technology and management systems, and helping them enter new markets more efficiently. The long-term commitment of experienced foreign partners with state-of-the-art technology and well-established distribution channels is essential.**

- **Insufficient financing is a major constraint to the emergence of more African entrepreneurs.** This includes both short-term credit to meet working capital needs, as well as longer-term investment capital. Capital markets are thin or nonexistent in many African countries. Severe restrictions on growth of credit and interest rates capped at too low levels inhibit the volume of loans from formal financial institutions.

- Donor agencies have historically provided far more assistance to public agencies and parastatal organizations than to private firms. **Public sector access to finance has crowded out private borrowing.**

Marsden concludes by calling for donor agencies to foster African entrepreneurship by deepening thin capital markets. He recommends channeling ODA into lines of credit for financial institutions such as commercial banks, development finance companies, merchant banks, and hire-purchase machinery leasing finance houses for on-lending to entrepreneurs. "Restricted access to credit is a more severe constraint than availability of technical assistance. Modern African entrepreneurs can generally obtain the information and advice they need through market networks" (p. 20).

5.3.3 Export Promotion in Developing Countries: Lessons Learned

Studies of export promotion of manufactured goods by Donald Keesing and Andrew Singer emphasize many of the same lessons as Marsden's African Entrepreneurs: Pioneers of

Development.[18] Although their focus is on manufactured exports, many of the lessons are applicable to agricultural exports—both high-value and highly perishable fresh commodities and processed agricultural products. Keesing and Singer critique development assistance to government institutions that provide export promotion, marketing and services support to exporters in developing countries. Trade promotion organizations (TPOs) within the public sector are ineffective because they typically do not and cannot provide support to exporting firms wishing to upgrade their production capabilities to meet the requirements of demanding foreign markets, donor agencies funding TPOs have not insisted on significant impact, and support for export marketing has been inappropriately provided through a sole public service supplier free of charge. Keesing and Singer argue that **lack of export know-how is a key constraint to prospective exporters; successful exporting requires detailed knowledge of foreign market demands with respect to grades and standards, packaging and labeling requirements, and desired characteristics of products with respect to materials, color, and other attributes.**

Keesing and Singer emphasize the importance of "supply aspects" of exporting, meaning production of goods that will make the grade in export markets. They point out that **"advice on production, other supply tasks, and associated management tasks has rarely been systematically provided by official trade promotion organizations, either directly or through consultants." (p. 4) The chief challenge to a prospective exporter, competing with many other potential suppliers, is to convince a skeptical importer that he is a reliable supplier able to supply contracted quantities of pre-specified (high) quality on a timely and predictable basis.** This is particularly true for exporters of high-value agricultural commodities, such as horticultural products, herbs and spices, flavors and fragrances, and ornamentals. In many African countries prospective exporters lack the production know-how or information on required grades and standards. Study trips to foreign markets can provide knowledge of the latter, but production know-how is only likely to come from association with a foreign partner or a foreign consultant willing to provide specialized supply expertise at market rates.[19] In sum, "what developing countries need most to support exports at the firm level is for firms to have access to services that can compensate for their own limited expertise. This is true not

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[18] See Hogan, Paul, Donald B. Keesing and Andrew Singer, The Role of Support Services in Expanding Manufactured Exports in Developing Countries, EDI Seminar Series, Economic Development Institute of the World Bank, Washington, D.C., 1991. This paper contains two essays by Keesing and Singer: "Development Assistance Gone Wrong: Failures in Services to Promote and Support Manufactured Exports" and "Assisting Manufactured Exports Through Services: New Methods and Improved Policies." In a third essay, Paul Hogan argues for strengthening and reorienting trade promotion agencies.

[19] Internships with agribusiness producers of top-quality agricultural products may provide developing country producers of high-value export commodities with sufficient production expertise, provided they have a good, sound base in production agriculture and farm management. Such an internship may be insufficient, however, if a producer cannot replicate sophisticated production conditions in his own country.

only for selling exports, but also for adapting production so that firms supply what foreign buyers want." (p.9)

Keesing and Singer note that "difficulties in exporting usually remain formidable in early years of adjustment." (p. 8) During the initial period of policy and regulatory transition from a statist to a more open-market orientation, they point out that **it is critically important for governments to give clear and consistent signals to the private sector that it is committed to an outward-looking, export promotion strategy.** "Only when the business community realizes that its longer-term profitability depends on successful adjustment to this new reality will it start to take seriously the difficult task of changing its ways." (p.8)

Keesing and Singer discourage the free provision of information services by public TPOs on a single-supplier basis. "This approach has starved these services of money, hindered private service providers from entering the market, and retarded the exploitation of new information technologies by discouraging commercial information services." (p. 10) When TPOs provide services ineffectually to exporters, private suppliers of services are also typically discouraged from competing in this market and from linking up with foreign commercial service viders.

Finally, Keesing and Singer argue that the **"misguided evenhandedness" of TPOs is a disservice to prospective exporters.** TPOs are reluctant to select industries, products or firms for targeted and special support. This leads to a diluted and diffused export promotion effort. Furthermore, potential buyers or importers are not provided with information about the potentially best or most reliable suppliers. Keesing and Singer state that

> **"The information that buyers most value about suppliers is how they have performed as exporters, both by absolute standards and relative to other suppliers.** Guiding buyers to suitable and dependable suppliers is strongly desirable in the interest of export expansion. Among other advantages, it helps to avoid disastrous failures early on, which can ruin the reputation of the entire country as source of supply." (p. 14)

After articulating common shortcomings of TPOs and most developing countries' export promotion efforts, Keesing and Singer offer four recommendations (p. 19):

- **"Emphasize support services that overcome supply difficulties holding back otherwise potentially profitable exports.** Provide consultant assistance to promising firms in products with strong export prospects to help them improve their supply capabilities and performance."

- **"Provide exporters with ready access to commercial service suppliers abroad.** As exports develop, **systematically favor the development of a number of competing service suppliers, primarily in the private sector.** Facilitate and encourage the establishment of local branches or affiliates of multinational service firms."

- "**Rely on specific, time-bound projects or project components involving temporary injections of resources to channel external assistance to services supporting the expansion of manufactured (*for the purposes of this paper, agribusiness*) exports.** Direct each project component specifically toward the one overriding objective of expanding exports within the project's time frame, avoiding premature and unrealistic institution building."

- "**Create packages of assistance around one or more grant funds.** By means of these funds provide cost-sharing grants to firms to help pay the costs of services from suppliers of their choice."

Keesing and Singer distinguish among three stages of exporting: 1) selecting an export market and finding out that market's requirements; 2) adapting the supply package to suit that market's preferences; and 3) actively finding customers and obtaining orders. Product-specific consultant advice needs to be provided at each stage of the export process; a broader series of support services may also be provided by the following private suppliers, particularly at the first and third stages of the export process:[20]

- Accounting and auditing firms
- Bonded warehouses
- Cold storage/refrigeration firms
- Commercial and agric. credit banks
- Credit rating/checking firms
- Agric. engineering consultants
- Export market research/analysis firms
- Foreign firm's buying offices/agents
- Insurance companies (export insurance)
- Investment and development banks
- Management consultants
- Marketing consultants
- Foreign trade consultants
- Procurement/purchasing agents
- Product inspection/quality control firms
- Shipping agents/freight forwarders
- Testing/certification laboratories
- Trading (export-import) firms
- Warehousing/storage firms
- Wholesalers/distributors

During the first phase of the export process, Keesing and Singer point out . . .

> **"Exporting firms require information on markets, in much comparative detail; on the supply package required in a selected market and how to supply it; on competitors' technologies, equipment, and management systems; on potential buyers, what they generally buy, and details of their businesses; and much else."** (p. 25)

This information needs to be tailored to specific commodities and specific targeted markets. Export market research and analysis firms, foreign trade consultants, and marketing consultants can assist potential agribusiness exporters in obtaining and interpreting this information. During

[20] This list is taken directly, with minor adaptions, from Keesing and Singer, "Assisting Manufactured Exports Through Services: New Methods and Improved Policies," 1991.

the third phase of the export process, when exporters seek buyers and orders, agricultural commodity trade specialists can assist exporters in making introductions to prospective buyers and setting up visits to these firms in developed country markets. These specialists may also assist exporting firms in supporting sales with brochures, advertising, samples and other evidence of their capabilities.

By working through a developed country intermediary with specialized commodity expertise, an exporting agribusiness firm can gain far easier market access. Potential foreign buyers require extensive information on exporting firms, including its experience and past performance, production capacity, supply capabilities, finances, creditworthiness, and the character, motivations and reliability of the firms' managers.

In sum, Keesing and Singer argue strongly for product-specific support in the areas of supply, market information and intelligence, and identifying and selecting foreign buyers. They conclude that TPOs are not an effective vehicle for delivering these services to prospective exporters; rather, private market networks and suppliers of specific services can and must be tapped to facilitate export development. They advocate an approach similar to the "fast-track" agribusiness trade and investment promotion approach laid out in chapter 9 (see 9.2.5).

5.4 Conclusions from Review of A.I.D. and World Bank Experience

From the above selective review of A.I.D. and World Bank experience, we make the following observations about past efforts to promote agribusiness development:

- *Traditional* approaches to agribusiness trade and investment promotion, which combine policy development and research, database development, and market research with general investment and export promotion services, are only suitable for African countries having positive policy environments and investment climates, good infrastructures, significant human capital in the private sector, and good resource endowments and business potential. Action Recommendation: Traditional approaches to agribusiness development can probably only be used effectively in the most economically advanced African countries with favorable policy environments.

- *Targetted* approaches to agribusiness trade and investment promotion involve providing services intensively to a small number of selected enterprises. Such approaches are recommended for African countries having uncertain policy environments and investment climates, weaker resource bases and infrastructure, a less well-developed private sector, low productivity and little export momentum. Action Recommendation: Programs using a targetted approach to agribusiness trade and investment promotion should be implemented in a number of African countries where selected commodity subsystems have high potential for expansion and successful export.

- Commodity, industry and export associations can play a coordinating role between the public sector and private firms in areas such as market and crop research, training,

export promotion and implementation, and other efforts which can benefit from economies of scale. The extent to which associations are able to become self-supporting is problematic, particularly in African countries without well-developed associations and where private members are unwilling or unable to bear the full costs of association operation in the short term. Action Recommendation: Trade associations will need to be nurtured by donors in most African countries and subsidized over the medium term. Every effort needs to be made, however, to charge members for needed and desired services. Independent associations should be supported and staffed by non-government officers who can represent private agribusiness firms credibly.

- Trade and investment promotion projects should have a single responsible organization, preferably but not necessarily in the private sector, with a narrow scope of activities in order to function successfully. Such an organization needs to be supported by strong, intensive and flexible A.I.D. management and contractor personnel. Action Recommendation: While the track record of government trade and investment promotion agencies is mixed worldwide, the single responsible organization in some African countries for promoting agribusiness trade and investment may end up being a semi-autonomous government agency, given the weakness or non-existence of institutional alternatives. A.I.D. project officers managing agribusiness projects will need a mixture of skills in agricultural development, marketing management and international trade. Agricultural officers may require retraining; alternatively, new staff could be hired to manage agribusiness projects, perhaps on contract.

- Export *catalysts*, praised by the World Bank as packaging the necessary technical, marketing and managerial know-how, and capital to initiate export projects, can play critical roles in getting agribusiness enterprises going in African countries which have weak policy environments and business climates. Action Recommendation: The World Bank or A.I.D. could provide guidelines for identifying export catalysts and working with them.

- Modern, formal private agribusiness firms do exist, despite the recent overemphasis on the informal sector, and are capable of expanding and playing a greater role, but lack finance and technology. While market networks exist for information and services, particularly in the form of private consulting firms, capital markets are thin and do not meet the needs of formal agribusiness firms (and informal firms which could become formal sector operations). According to Marsden, insufficient finance is the major constraint to the emergence of more African agro-entrepreneurs. Marsden argues that donor assistance must focus increasingly on strengthening and deepening financial markets, thereby providing agro-entrepreneurs with necessary financing. Action Recommendation: While capital is clearly a constraint to agribusiness investment in African countries, a number of complex issues need to be examined before pumping donor funds into formal financial institutions. Ohio State University calls for analyses of the roles, comparative strengths, and constraints facing both formal and informal

financial markets. OSU's suggestion of using formal agribusiness firms as informal on-lenders to suppliers and distributors merits further examination and experimentation.

- Government-run trade promotion organizations (TPOs) have a weak track record worldwide. TPOs are rarely able to provide needed advice to exporters on production, other supply tasks, and associated management tasks. They also do not typically provide market information and intelligence which is detailed-enough by commodity to be of much use to exporting firms. Keesing and Singer advocate promoting the emergence of commercial service providers of production, marketing and management assistance to exporters. Action Recommendation: In African countries where that is not likely to happen quickly, A.I.D. should explore promoting alternative institutions, such as trade associations, business incubators, and export processing zones, which could be supported by technical assistance in the short to medium term but pay for needed commercial export support services in the longer term. In some African countries where A.I.D. plans to promote agribusiness development, selective use of government-funded and -guided trade promotion organizations may be required in the short run. Special care needs to be taken to grant such organizations autonomy, define restricted mandates, and hire staff with a private sector and service orientation.

6. Lessons Learned from A.I.D.'s Direct and Indirect Promotion of Domestic Agribusiness Development and Intraregional Trade

Although much of A.I.D.'s focus in the early 1990s has been on promoting foreign agribusiness trade and investment in developing countries, many African countries are not yet attractive environments for foreign investment. While some African countries with suitable soils, rainfall and agroclimatic zones are currently exporting or could export horticultural and other non-traditional products, many African countries are not likely to be competitive in international markets. Even in cases where African countries are able to produce non-traditional export commodities, many countries lack the following essential elements of the export package:

- infrastructure (transport, port handling, electricity, water, sewage, telecommunications);
- agricultural production and marketing technology (including post-harvest handling, pre-cooling and cold storage, packaging, etc.);
- a convertible, floating (or periodically adjusted) and realistically valued currency[21] and access to foreign exchange; and,
- a vigorous entrepreneurial tradition, supported and facilitated by African governments that have strived to create a positive investment climate and economic environment.

Landlocked African countries face a special disadvantage in that their transport costs to high-income developed country markets are high. Only the highest value commodities can be air-freighted competitively. In cases where African countries have an ocean port, port handling and receiving facilities may be rudimentary. Some African ports are not set up to handle containers and cold storage capacity is often lacking. Sea shipping opportunities are restricted for many African countries, particularly those with ports not equipped to handle containers. In order to ship horticultural products, for example, by refrigerated container, significant volumes must also be assembled for shipment on a reliable, frequent basis in order to attract adequate shipping capacity.

This chapter will focus on A.I.D.'s diverse experience in supporting the development of domestic agro-enterprise that produces for the domestic markets of African countries and for export to other countries in the same region of Africa. This focus presents several problems. First, domestic markets are thin in most African countries, although urban populations are

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[21] The CFA Franc zone countries are penalized by overvalued currencies. CFA overvaluation has been a major factor in undercutting the competitiveness of Francophone African exporters of horticultural products to Western Europe. Buyers in Europe are increasingly turning to lower-cost sources of supply, such as South and Central America, Kenya, Egypt and Turkey.

expanding rapidly. Much of the newly urbanized population lacks purchasing power, however, and demand for food tends to be concentrated on the cheapest source of calories with little value added. Second, intraregional trade opportunities within Africa are often limited by neighboring countries having similar resource endowments, agro-climatic conditions, and hence cropping patterns. In many cases, an African country with a staple crop (e.g., maize) surplus for export will find that a prospective trading partner also produced a surplus of the same crop, which limits trade opportunities. A third problem is that high transport costs within and among African countries undercut incentives for trade even where opportunities for trade are quite promising.

Paradoxically, while the agribusiness investments with the broadest and most positive short to medium term impact are likely to be in staple food crop marketing, processing and distribution for domestic and neighboring markets, market depth is a serious constraint and the trade prospects are probably the dimmest in the short to medium term. In sections 6.1 to 6.6, this chapter will address at a conceptual and strategic level the following issues:

- Formal vs. informal sector firms and A.I.D.'s role.
- Financial requirements of firms.
- Market depth and access issues.
- Transport costs and their impact on export prospects for relatively low-value commodities.
- Scale and appropriate technology issues.

Section 9.3 will lay out the elements of an analytical agenda for agribusiness development focused on domestic and intraregional markets.

6.1 Formal vs. Informal Sector Firms

An oft-discussed issue is that of the "level playing field." **Import, export, financial and commercial policies and regulations have benefitted larger, formal sector firms in many African countries and disadvantaged smaller, informal sector firms.** The GEMINI project, as did its precursor projects PISCES and ARIES, focuses its analysis of the policy and regulatory environment on this set of issues. USAID analysts in field missions need to be aware of the numerous typical policy and regulatory biases. Perhaps GEMINI will chronicle these in a policy inventory instrument which concentrates on the needs and policy biases facing small firms.

USAID missions in Africa appear to address the issues associated with a level playing field in agribusiness trade and investment promotion projects by requiring technical assistance teams to examine policy and regulatory constraints. The extent to which mission-funded projects

and programs favored larger, formal sector operators over smaller, informal sector firms could not be ascertained in this initial review.

There is currently a good measure of enthusiasm about the informal sector in some donor, research institute, academic and NGO circles. **We feel strongly that schemes designed to promote and expand the informal sector are misplaced. A large informal sector is not necessarily evidence of a vibrant, healthy private sector in African countries. Rather, it typically demonstrates the ingenuity and energy of small-scale economic operators and firms which face strong disincentives to participate in the formal sector.** A large and growing informal sector is more likely to be associated with repressive government regulations and unfair policies biased against small firms (see Marsden, 1990).

While schemes to promote the informal sector may be misplaced, A.I.D. and other donors should emphasize policies and programs which help informal firms to move out of the informal sector to the formal sector. In order to do this effectively, informal sector firms with the potential to grow need to be identified, the policy, regulatory and business climate constraints to their growth must be identified and examined, and specific programs have to be developed to overcome these constraints.

A fundamental issue in the formal-informal debate in the African context is that informal sector firms have few incentives to join the formal sector. In many African countries, formality means higher levels of taxation and reporting requirements. Since operators of many informal sector firms are illiterate, additional reporting and paperwork constitute a serious nuisance, which raises their overhead costs significantly. From informal entrepreneurs' standpoint, higher taxes never lead to a higher level of government-provided marketing infrastructure and services. Informal firm managers complain that higher government fees end up feeding general revenue pools, particularly at the local level. As a general word of caution, requiring agribusiness firms to pay new taxes needs to be matched by provision of some new services or upgrading of current infrastructure and services to the private sector. Otherwise, firms will attempt to evade taxation or remain in the informal sector.

6.2 Financial Requirements

When asked, small and medium-scale operators will typically report that capital is their most binding constraint. While the knee-jerk prescription may be to fund a formal credit program targeted to a particular group of prospective loan recipients, the track record in developing countries on formal credit programs has been dismal. Formal credit is fungible, it is often diverted to other uses, it is often repaid late or not at all, it is tapped by those recipients who least need it, and it sometimes subsidizes inefficient operators, whose operations would fail if they were required to pay interest rates that were either positive in real terms or closer to the opportunity cost of capital. **Given this poor performance, designers of formal credit programs in support of agribusiness need to be wary of potential pitfalls.**

Simmons and Herlehy (1990) synthesize other important lessons in an assessment of the impact of rural credit projects in Africa, done under the Development Fund for Africa. These are summarized as follows:

- Directed or targeted credit (to particular classes of users or particular end uses) should be avoided, as financial resources are fungible and often shifted to other uses.

- Skills in financial management, accounting and book-keeping, as well as knowledge of sound business and lending policies and procedures, need to be strong in financial institutions serving rural and agricultural clients.

- Poor technical and management skills among many farmers regarding the use of productivity-enhancing technology affect their capacity to be reliable and creditworthy borrowers.

- Credit programs which identify and incorporate local traditional practices or institutions that are similar to the proposed activities, or which can complement project activities, will be the most successful and sustainable interventions.

- Credit is not necessarily the most binding constraint facing poor rural households. Their capacity to reimburse loans is enhanced if they contribute some savings to the activity targeted by the loan, and it is dependent in part on resource availability, market access, and their level of technological (and management) skills.

Yet adequate capital for investment and operating purposes is essential for SMEs in African countries. Additional operating or working capital can allow firms to buy more raw material for processing, storage, or trading at lower cost. Investment capital is used to invest in hardware items that permit more efficient performance of marketing functions, or allow for operation on a larger scale. When such capital is contributed as equity, entrepreneurs are not burdened by interest charges; they are also more personally committed to the success of the enterprise.

In a recent paper prepared for A.I.D., Ohio State University analysts (Meyer and Graham, 1991) argue that **the Africa Bureau should consider providing financial resources to agricultural producers, rural assemblers, and distributors of food products indirectly via agribusiness firms.** This would lower loan transactions costs for formal financial institutions, as well as strengthen relationships between formal sector agribusiness firms and largely informal suppliers and distributors. In many parts of Africa, large wholesale traders and agro-processing firms are already playing this financial intermediation role.

One practical issue is whether agribusiness firms would like to receive greater formal financial resources for on-lending to other participants in the food system. The capacity of these firms to handle greater financial flows is also open to question. Would the firms need to hire additional staff to monitor their loan portfolios more carefully? Or could bank or

agricultural credit fund officers assist firms in setting criteria for loan "recipients" and tracking disbursements? These issues call for greater research and far more analysis of operational considerations and potential pitfalls facing agribusiness firms as financial intermediaries.

6.3 Market Depth and Access Issues

Staple crops such as grains and tubers are grown in part for own-consumption by rural households, as well as for sale. In many African countries, marketed surplus is in part an incidental surplus, in the sense that surpluses are more the result of favorable rains and growing conditions than conscious decisions by producers to grow more for the market. **This unpredictability and unreliability of supply, particularly in the more arid African countries, is a constraint to the emergence of medium and large-scale domestic firms which market and process staple commodities.**

On the demand side, human consumption for staple crops is also constrained. Rural markets tend to be quite thin. In years of surplus, there remain households which are net cereals buyers, though they tend to purchase grain in lower quantities. In years of deficit, most households are required to meet at least some of their staple crop consumption needs through purchases, which pushes up prices. Urban markets for coarse grains are also quite thin, particularly in African countries where imported rice and wheat consumption has made major inroads.

6.4 Transport Costs and Their Effect on Trade Opportunities

High transport costs in Sub-Saharan Africa, which are reported to average about two times those in Asia, are a serious impediment to intraregional trade, especially trade in bulk commodities. Comparative advantage studies often show that African countries are able to produce grains, legumes and oilseeds for own consumption but not for export to neighboring countries.[22] In some African countries, such as Chad, transport infrastructure is so dilapidated or underdeveloped that bulk commodities cannot be shipped from surplus to deficit zones without incurring trading losses.

Factors contributing to high transport costs in most African countries are the high cost of fuel and lubricants, vehicles and spare parts, as well as the poor condition of many rural roads, which increases maintenance and repair costs. Transport rate-setting, over-regulation, administrative allocation of cargo among the trucking fleets of countries which are trading partners, and regulations which dampen incentives to achieve scale economies in trucking also

[22] In extreme cases, such as rice production in the Senegal River valley, locally grown rice is not competitive in the principal urban market, Dakar, of the same country.

contribute to transport inefficiencies.[23] Finally, informal marketing charges or rents paid to uniformed agents along roads (i.e., at checkpoints), on railways and at ports increase marketing costs and/or impose transport delays. Improvements in transport infrastructure, reduced regulation of trucking, lower government taxes on imported vehicles, spare parts and fuel, and reduced numbers of checkpoints and uniformed agents on the roads could lower transport costs.

While high transport costs limit intraregional trade opportunities, and may even handicap interregional trade within countries, small and medium-scale firms may benefit and be able to trade actively in geographically circumscribed zones. Larger-scale, more efficient firms may not flourish in countries where infrastructure is weak, because their scale advantages are offset by high interregional transport costs. Hence, high transport costs may contribute indirectly to higher marketing costs by insulating regions from interregional trade and outside competition.

6.5 Scale and Appropriate Technology Issues

Production, post-harvest handling, processing and storage technologies for staple crops in African countries may not have to be state-of-the-art by the standards of industrialized countries. In most cases, the industrialized countries have developed capital-intensive technologies that depend on excellent utilities and infrastructure (electricity, water, HVAC), strong maintenance and repair networks, and skilled manpower to operate and maintain equipment. Needless to say, these conditions are not met by many African countries. As a result, precise and sophisticated equipment may not function well or for very long under the difficult conditions of many African countries (i.e., heat, humidity, sand and dust, etc.). Furthermore, most bulk commodities produced in Africa are not valuable enough to support purchase of sophisticated equipment for handling, processing and storage.

Although the concept of appropriate technology may seem quaint ('Small is beautiful'), naive and out-of-date, it is still valid in the African context for many lower-value commodities. High-technology production and marketing techniques have been tried in many countries and for many commodities with only limited success. The African landscape is littered with storage silos that go unfilled, slaughterhouses where 2-3 of the, say, 4 lines are inoperative, and where large-scale, centralized processing plants barely meet operating costs.

The African countries are probably best advised to scour other developing countries, particularly those in Latin America and Asia, for innovative technologies that are more consistent with their resource endowments and operating environments than to rely on highly

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[23] In Kenya, for example, restrictions on the number of bags of maize that can be transported across district lines (set at 2, 10, 44 and then 88 bags per shipment) has prevented grain traders from achieving the greatest scale economies in transport. Rather than keeping transport costs as low as possible by shipping maize interregionally in trucks capable of hauling 20 tons (or 222 bags of maize), traders have been forced to use smaller vehicles having higher per bag transport costs.

industrialized countries for state-of-the-art technology. For example, CIAT has successfully developed mini cassava processing plants in the lowlands of Colombia, which are decentralized (and hence accessible to small farmers), use intermediate technology, keep processing costs low, and facilitate interregional trade in processed cassava. The Asian Institute for Technology in Bangkok is another international organization that screens, develops and promotes appropriate technology for harvesting, handling, processing, and storage of staple crops.

One element of a small and medium-scale agribusiness promotion program might be for a government-supported technology research institute to assist the private sector in identifying technology options, testing pilot technologies, and promoting widespread adoption of successful technologies. The experience of public agencies in being able to perform this role is mixed; in Senegal, the *Institut de la technologie agro-alimentaire* has not been able to identify technologies that have proven viable and have been widely disseminated to private users. As an alternative to developing technology screening and dissemination capacity in a public agency, support could be provided to trade associations, which could do their own search and testing. This approach will be tested under the USAID-funded Nepal Agricultural Technology and Support Project.

6.6 Representation of Small and Medium-Sized Agribusiness Firms

Another issue in domestic small and medium-scale business development concerns industry representation. Indigenous firms, particularly non-formal ones, tend to be poorly organized and have little or no voice in policy fora. Public decisions often reflect little private sector input. In order to strengthen the lobbying power of economic operators, some forms of associations must be created to represent different groups of private firms. The most logical way to organize the private sector is along industry/commodity lines. Hence, grain traders or fresh produce exporters might be relatively cohesive groupings. An association of all staple crop traders or all exporters is probably not likely to be very cohesive. A key issue for African governments and donors to contemplate is how high a priority should be accorded to strengthening trade and industry/commodity associations. **In the spirit of self-help and empowerment of local agribusiness, support to associations could have a high payoff over time, as groups of firms become better able to articulate their needs to African governments and donors, lobby for policy and regulatory reform, and identify technical and financial support that will improve performance of their commodity subsystems.**

7. Monitoring and Evaluation of the Impact of A.I.D Agribusiness and Agricultural Marketing Initiatives

Under the Development Fund for Africa (DFA), the Africa Bureau's mandate is to improve the impact of development programs and concentrate resources where potential impact is high and anticipated results are measurable. In order to strengthen program design, implementation, and evaluation, A.I.D. missions are developing benchmark indicators that are part of the overall Assessment of Program Impact (API) process. To be effective and objectively verifiable, APIs need to be practical and targeted. Indicators should be analyzed to assess whether or not they satisfy the criteria presented below:

Practical: The indicator should measure what is important in a project or program, and be cost-effective in terms of data collection required.

Targeted: The indicator must measure quantity and quality, and account for change attributable to a project or program over a specified period of time.

A.I.D. missions use the logical framework (logframe) in order to guide missions in formulating strategy and monitoring program implementation. The program logframe outlines a hierarchy of levels of strategic goals and objectives of the A.I.D. mission, specifying measurable targets and verifiable indicators of success and performance at each level. Each A.I.D. mission develops its program logframe for inclusion in the Country Program Strategy Plan (CPSP), which reflects priorities of the Africa Bureau as defined by the DFA targets.

An informal review by AID/W of indicators used by missions to measure the impact of agribusiness/marketing initiatives revealed the need for more consistency and better definition of strategic objectives and targets. Examples of indicators related to private sector agribusiness include the "increase in the role and efficiency of private markets" or "increased private sector investment." The number of enterprises started and the number of entrepreneurs trained were indicators developed to measure the level of success in reaching these project or program objectives.

These examples demonstrate the difficulty in developing indicators which effectively measure performance. The number of enterprises started or the number of entrepreneurs trained are **process indicators** rather than impact indicators since they do not measure the extent to which the overall objective of improving the efficiency of agricultural markets has been achieved. Put another way, **process indicators measure project inputs or services rendered, rather than project outputs or impacts.**

Thus the crucial issue for A.I.D. missions is how to develop indicators that capture whether program objectives such as "improved agricultural market efficiency" are being achieved. Before providing step-by-step guidance for formulating indicators, it is essential to define the context in which agribusiness and agricultural marketing initiatives are created.

7.1 Objective Tree Levels and Measures

The linkages between agricultural marketing and agribusiness project or program actions, conditions, and objectives can be depicted in an objective tree format, as shown in Exhibit 4. The agricultural sector strategic objective (Level V) is sustainable increases in agricultural productivity arrived at working through Levels I-V in the objective tree.

Level V	**Achievement of Agricultural Sector Strategic Objective** of Sustainable Increases in Agricultural Productivity
Level IV	**Expected Economic Outcomes** Resulting from Achievement of Efficiencies in Agribusiness/Agricultural Marketing
Level III	**Realization of Efficiencies** in Agribusiness/Agricultural Marketing
Level II	**Establishment of Conditions** for Improved Market Efficiency
Level I	**Implementation of Actions** to Establish Conditions for Improved Market Efficiency

Level I represents the actions implemented as part of A.I.D.'s assistance for agricultural marketing and agribusiness, which, if successful, establish the necessary conditions leading to improved market efficiency (Level II). With the appropriate conditions established (e.g. policy reforms, improved market infrastructure), the agribusiness/agricultural marketing objective of more efficient, lower cost marketing can be achieved (Level III). This result manifests itself in expected economic outcomes at Level IV including increases in producer prices, decreases in consumer prices, and increases in agribusiness investment and gross returns. The ultimate desired result or strategic objective is achieving sustainable increases in agricultural productivity (Level V). Each of these levels is discussed in more detail below beginning with Level I, which consists of actions taken in each category of intervention that corresponds to the market elements as defined in the Strategic Framework.

Level I — Actions That Establish Market Efficiency Conditions

Level I represents critical actions that governments, donors, and private sector agricultural marketing and agribusiness participants can undertake, establishing the Level II conditions that will in turn lead to more efficient, lower per unit cost marketing (the Level III objective). Level I actions are broken down into policy and regulatory reforms, infrastructure investment, and investments in human capital (the three basic elements of the marketing system). Exhibit 5 describes illustrative Level I indicators such as the percentage change in the official-parallel market price differential (measuring the impact of changes in pricing policies, for example).

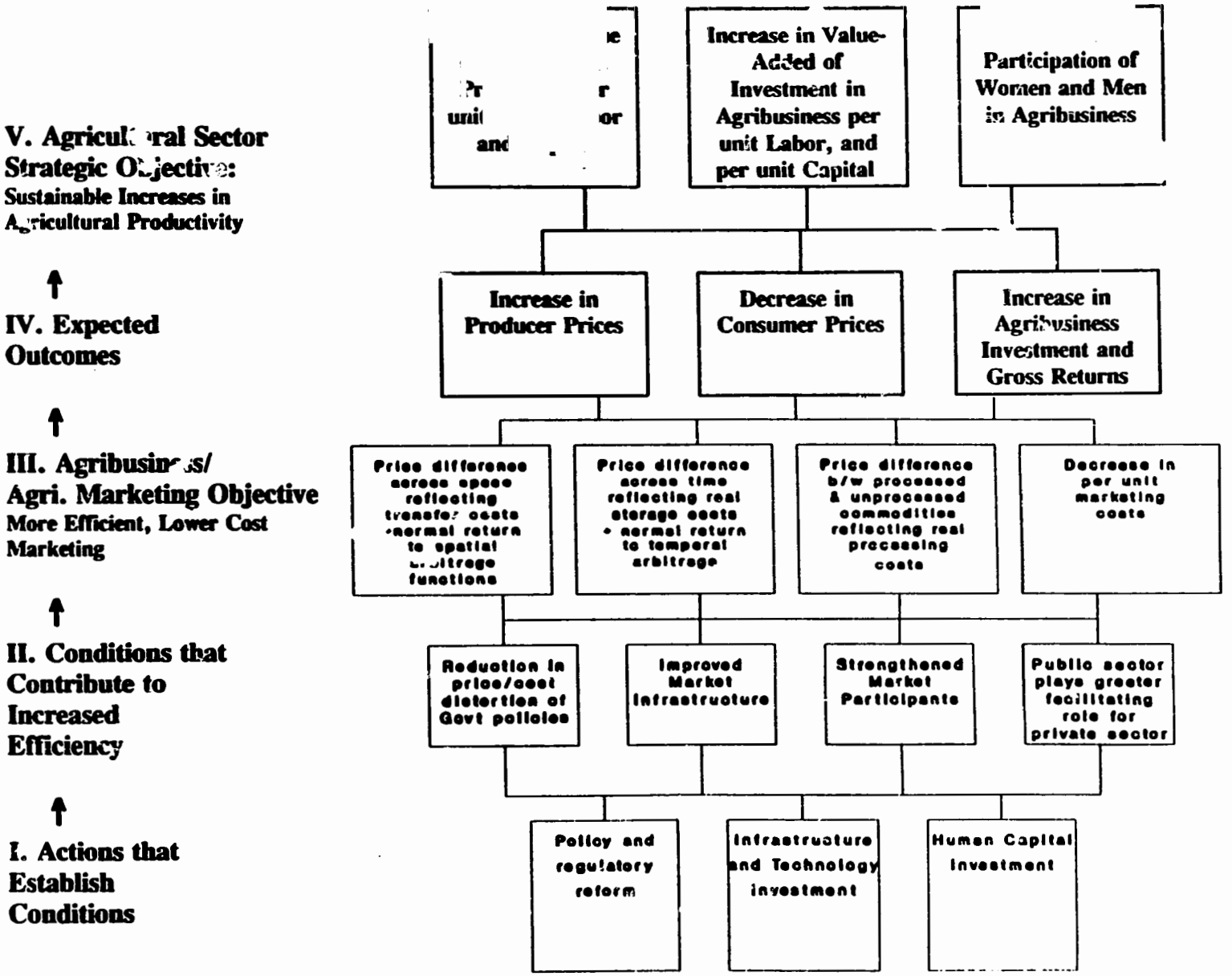

Exhibit 4: Performance Measures for Agribusiness & Agricultural Marketing Interventions

Process indicators, **which are often used to measure performance of Level I actions, give only a first approximation of goal-achievement, posing a dilemma for decision makers who monitor policy and regulatory reform impacts.** In the past, much impact monitoring has relied far too heavily on process indicators (e.g., reduction in the number of restrictive procedures facing private sector marketing participants). While administrative compliance (instituting laws or changing specific policies on paper) is almost always an important and **necessary** condition for achieving the ultimate objectives of a program, policy reforms are often not **sufficient** in and of themselves. While recognizing the limitations of process indicators, the following example demonstrates the potential usefulness of monitoring impact at Level I.

Example: Measuring the Effectiveness of a Market Information System. The effectiveness of a public MIS can be evaluated according to the following **process** criteria: number of markets and commodities (and grades or varieties) for which price data are collected; speed with which price data are processed and reported; number, timeliness and frequency of dissemination outlets (printed price reports, radio broadcasts, etc.); number of MIS seminars and workshops that analyze and interpret market information for policy-makers.

Process indicators can also be supplemented by either structured informal interviews or periodic formal surveys of different user groups to obtain information about their opinions of MIS reliability and utility, and concrete suggestions about how dissemination of market information could be improved and trader awareness of a public MIS enhanced. For example, in one set of formal interviews of wholesale grain traders carried out by FSA/CA in Mali (see Steffen, 1991), traders were queried about their interest in and use of the MIS price information.

In most cases, it is difficult to assess in a cost-effective manner the value of market information to private traders and producers (i.e., whether or not they are truly able to interpret market information well and use it effectively in their trading decisions). In cases where trader (or other marketing agent) surveys are too costly to undertake, a good indicator would be demand among marketing agents, public sector analysts, and policy-makers for MIS products.

One useful *proxy* indicator of impact could be the number of requests for MIS price bulletins and analytical reports, differentiated by user group (public agency, trader, processor). This assumes that people requesting the reports find them useful and use the information in some manner in doing policy analysis or monitoring of impact, or in making marketing decisions. One refinement of this proxy would be to differentiate between people requesting reports for the first time and those who are requesting reports for the second, third or more times. **Evidence of many repeat requests would demonstrate user interest.** Simply recording the number of requests does not get at the issue of willingness to pay, however. The utility and credibility of this proxy indicator could be enhanced by charging a fee for the report.

Note that it is more difficult to develop proxy indicators for the effectiveness of radio dissemination of market information. Ascertaining the proportion of farmers or traders listening to the radio broadcasts requires some form of sample survey. To the extent that outside sponsors pay for radio broadcasts, one possible proxy of how effectively radio reaches

farmers and traders would be willingness on the part of private firms to pay for radio advertising (and market extension broadcast) time. Private sponsors will obviously not pay if they perceive there is a limited audience.

In order to evaluate the quality of public market information, in-depth investigation of data collection and processing procedures will typically be required. This can be done through interviews of MIS staff from the lowest-level enumerator to the MIS manager, as well site visits to markets where enumerators are actually collecting price data. An AMIS team did this in Kenya in several markets and found a difference between what public agencies say they do and how they actually collect price data in practice. Maintaining consistent high standards in data collection requires careful, attentive supervision and some feedback from analysts on the quality and utility of the price data.

Level II — Establishment of Conditions Necessary for Improving Market Efficiency

Level II shows the conditions that contribute to increased efficiency of agricultural markets occurring as a result of Level I actions. These include reductions in the distorting effects of government policies, improved market infrastructure, strengthened skills and management capacity of market participants, and a public sector which plays a greater facilitating role for the private sector (including institutional reforms which benefit the private sector).

Given the importance of a policy environment conducive to private sector investment in agriculture, monitoring the implementation of policy reforms is critical for USAID missions. The extent of the policy reforms recently witnessed throughout Africa represents a major accomplishment on the part of the governments and the donors encouraging them. This level of monitoring is typically included as an integral part of specific projects or policy reform programs.

Level III — Realization of Efficiencies in Agribusiness/Agricultural Marketing

At Level III, measures of a more efficient, lower cost marketing system (the agribusiness/agricultural marketing strategic objective) are **price differences across time and space, price margins between raw product and processed goods, and per unit marketing costs.** Level III is probably the most appropriate point at which A.I.D. can assess impact at a reasonable cost (at least in terms of collecting primary data).

Efficient, competitive markets can be expected to have marketing margins reflecting actual costs of transportation, storage, processing, and movement of commodities, plus some "normal" profit margin. Excess margins demonstrate inefficiencies which may include waste, nonproductive payments to rent-seekers, or oligopoly power. Conversely, the decline of marketing margins for products of the same quality and degree of processing is an important indicator of reduced costs and greater efficiency. Care is required in the interpretation of margin data—margins which are too thin may represent short-term marketing at a loss, which

cannot be sustained, or demonstrate a limited capacity of firms to earn profits which can be invested in upgraded technology, forward or backward integration, and increased scale.

A sudden **decrease in per unit marketing costs** could also be misleading. For example, the cost of fuel may decrease due to some external factor, lowering the marketing margin with no corresponding increase in efficiency. **Or, in switching to a new technology such as cold storage, marketing costs could actually rise.** However, the quality of the product is improved with cold storage and the costs associated with waste are lower. Thus the marketing margin may decrease, increase, or stay the same with a corresponding increase in efficiency.

Measures of market integration, where inter-market correlation coefficients of commodity prices (or their first differences) are calculated, are another indicator of how efficiently national markets are integrated and performing. These measures need to be interpreted carefully, because high inter-market correlation may be evidence of oligopoly rather than competition.

An effective and relatively inexpensive means of monitoring impact at Level III is through targeted key informant surveys, focusing on key participants of the marketing chain and knowledgeable observers.

Level IV — Expected Economic Outcomes Resulting from Achievement of Efficiencies in Agribusiness/Agricultural Marketing

Level IV indicators are the expected economic outcomes resulting from achieving market efficiency. Higher producer prices, decreased consumer prices, and increased agribusiness investment and returns are expected outcomes from having achieved greater market efficiency. As such, these indicators reflect positive economic changes which serve as incentives for increased agricultural productivity (in the case of higher producer prices), for increased income and savings (in the case of lower consumer prices), and for increased employment (in the case of increased agribusiness investment and returns). Analytical problems related to using these indicators as measures of success in achieving efficient markets are considered below.

In the short-run, a more efficient marketing system can be expected to lead to **higher producer prices**. This encourages new entrants and increased production, which in turn could lead to lower producer prices if supply increases are not matched by increases in demand. In the long-run more efficient marketing encourages diversification and discourages over-production. With so many factors affecting farm prices (e.g. weather, world price levels), attributing changes in producer prices to increased efficiency (at any level of the chain) becomes extremely difficult.

Similarly, in the short-run, increased efficiency should also lead to **lower consumer prices**. But as the marketing system becomes more developed and sophisticated, **better quality products** will be offered. This may include further processing and better packaging which would actually **raise the price to the consumer** (for a slightly different product, requiring more

value-added). Thus at the consumer level, issues such as availability, quality, choice, convenience and attractiveness of appearance need to be considered as well as cost.

Agribusiness enterprise performance, as measured by an **increase in agribusiness investment and gross returns**, can be assessed at the levels of the firm, the industry or the sector. Furthermore, performance measures will have different meanings depending on the category of agribusiness. In Africa, there are three basic categories of firms, described below:

1. **Large-scale, capital intensive processing.** These include beverage (soft drink, fruit juice and beer) producing and distributing firms, soap producers, tanneries, sugar processing firms, tomato-paste and sauce processors, industrial mills, and baking companies (producing bread, snacks). These formal sector firms often have expatriate capital and produce under licensing agreements (e.g., Coca-Cola).

2. **Value-added cottage industries.** These include small and medium scale manufacturers of jams, jellies, honey, and packaged snack foods as well as coarse grain processors and vegetable oil presses. In low-income countries, there are usually many small entrepreneurs who process cereals into flour or peanuts into peanut butter using diesel operated mills. In middle-income countries there are a greater number of enterprises that are more sophisticated in terms of intermediate processing technologies and labor and management skills required for production. These can be both formal and informal activities.

3. **Agricultural trading firms.** This group includes all the traders of raw agricultural products—assemblers, wholesalers, and intermediaries—who handle the purchase and delivery of agricultural production from the farm to the market. These firms or individual traders provide bulking, transport and break-bulk services, but they do not usually do any processing of raw agricultural products. In both the low and middle-income countries, these are mostly informal sector activities.

In developing countries, sectoral level data on agribusiness investment and returns is usually not available. Firm-level data are also difficult to find and to collect, although key informant surveys can be used to obtain information about particular firms using a case study approach.

Given the difficulties in evaluating Level IV indicators discussed above, monitoring the impact of projects or programs at Level IV is probably advisable only in cases where good secondary data are available. Producer and consumer level surveys are extremely valuable sources of baseline data, and in many African countries may be a useful investment given the scarcity of baseline data. However, these surveys are time-consuming and relatively expensive, and thus are difficult to use for monitoring income levels over time, for example. **One option for monitoring purposes is to build in yearly (or every few years) follow-up surveys to a smaller sample of the large baseline production or consumption/income survey respondents.** Expenditure surveys are another option for monitoring at this level. Respondents

can be carefully selected from the sample to represent different socioeconomic groups and production scales/technologies.

Level V — Agricultural Sector Strategic Objective

In response to declining per capita agricultural production, many African countries have received agricultural sector adjustment loans which aim to promote increased growth of the agricultural sector through increasing productivity. However, since priorities are usually on implementing policies, little work has been done on developing sector-level measures of increased agricultural productivity. For example, achieving sustainable increases in agricultural productivity assumes that agricultural soil resources are conserved because poor agricultural practices would deplete soils over time and ultimately result in lower productivity.

Important indicators such as the value of agricultural production (per unit of land, labor and capital) and value-added in agribusiness (per unit of capital and labor) are not readily available due to poor data collection capabilities, or, if data are available, are not very accurate due to large error margins in production and marketing data. Agribusiness entrepreneurs may hesitate to provide detailed financial information to government agencies because they feel sensitive information will be used to increase their taxes or cause them undue harm in the form of officially-sanctioned harassment. Level V indicators are therefore problematic. Most countries improve their data collection and analysis capability as they modernize, and as public decision-makers and private investors put a greater value on reliable economic indicators.

7.2 Examples of Indicators

Since each mission's monitoring strategy is linked to particular programs through the program logframe, it is difficult to specify the "correct" indicators to use, and each mission will develop its own set of impact indicators to monitor. At the same time, if each mission chooses different indicators (or changes them each year), it makes any comparison between countries or years impossible. Examples of agribusiness and agricultural marketing impact indicators and means of verification for Levels I, II, III, and IV can be found in Exhibit 5. These indicators provide a starting point for more detailed indicators that are tailored to specific country programs. For example, one important area of activity within a policy and regulatory reform program is trade policies. In Exhibit 5, the illustrative indicator is the percentage decrease in the export tariff. For specific countries, indicators should specify commodities covered under the tariffs and the level of the tariff rates used and the target rate after reform.

7.3 Methodological Issues Related to Short and Long Term Market Efficiency Measures

Economic efficiency in agricultural markets is measured differently in the short term than in the long term, and this has implications for decision-makers who seek to justify project and program assistance based on concepts and designs that assume static conditions. Project management tools like the logframe are helpful for planning programs, because specific objectives and targets are made explicit. The structure of the logframe or objective tree helps

to clarify the internal logic of a project or program by categorizing objectives, indicators, and assumptions into the appropriate "box" or level.

Unfortunately, conditions in the real world are dynamic, not static, and underlying assumptions that define cause-and-effect relationships tend to change in ways that are difficult to measure due to the barrage of constantly changing external factors that affect expected outcomes over time. Furthermore, with respect to agricultural marketing, measures of efficiency that are relevant in the short term will not be relevant (and may even contradict) long-term measures. For example, in the short run, increased efficiency may lead to lower consumer prices. In the long run, as markets become more sophisticated and products reach consumers with more value-added processing, packaging and convenience, consumer prices could conceivably rise (as consumers are willing to pay for added value). Over the medium to long term, incomes and wages will also increase, which will raise the cost of providing services.

Another limitation of a framework that is based on the neo-classical economic model, emphasizing efficiency, is that social factors are not made explicit. To achieve sustainable increases in productivity, for example, **broad-based participation of men and women in agriculture and agribusiness is critical.** A.I.D programs need to involve the overall population in the process of agribusiness development in order to be more effective. Otherwise, distribution of impacts will be skewed towards priviledged minorities and neglect productive groups (especially women) whose exclusion causes scarce development resources to be wasted. In order to engage women in agribusiness, programs may have to be targeted to meet their special needs and address their particular constraints.

Exhibit 6 describes expected results of more efficient agricultural markets in the short versus long term. **To be effective, decision- makers need to remain flexible in monitoring impact and be skilled at identifying and accommodating changing conditions so that objectives and indicators can be modified appropriately.**

EXHIBIT 5: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level I - Actions That Establish Conditions

ACTIVITY	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
Policy and Regulatory Reform: 1. input and output pricing policies 2. trade policies 3. fiscal and monetary policies 4. policy administration and regulations 5. market movement controls	Examples: • less divergence between official and parallel exchange rates • decrease in export tariff levels; reduced use of quotas • increase in real effective interest rate • decline in number of regulatory steps involved in starting a new business or exporting • reduced controls on input and product movements	Policy reform monitoring
Infrastructure Investment: 1. physical structures 2. financial and informational services 3. MIS and services Technology Investment: 1. commodity production/procurement 2. transport/storage 3. telecommunications 4. microcomputers	Examples: • kilometers of new roads and of roads maintained • frequency and distribution of market price broadcasts • size of formal financial sector and loan volume • increased yields • volume or proportion of commodity achieving higher grades • volume or proportion of commodity processed • reduction in transport and storage costs (due to fewer losses) • increased number of exporters with fax/telex machines • increased number of exporters with computers • density of international telephone/fax satellite grids	Project monitoring GIS system Key informant surveys
Human Capital Investment: 1. public sector 2. private sector	Examples: • number of civil servants trained • number of private sector participants in training seminars	Project monitoring

EXHIBIT 5: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level II - Conditions That Contribute to Increased Efficiency

CONDITION	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
Reduction in price/cost distortion of government policies	• reduction in private/social price differential	DRC/PAM studies
Improved Physical Market Infrastructure	• decrease in per unit transportation costs per unit capital invested • decrease in per unit storage costs per unit capital invested • decrease in per unit transformation costs per unit capital invested	Project monitoring Case studies or formal surveys of transporters, traders, processors
Improved Financial and Information Services	• increase in number of private sector firms/individuals with access to formal credit • increase in number of people with access to market information	Project monitoring Focus groups Key informant surveys
Strengthened Market Participants: Firm-level	• decrease in input/output coefficients • increased investment in productive capacity	Firm-level interviews
Strengthened Public Sector Support Role	• reduction in direct "control" activities (e.g. price-setting) and competition with private sector • increased evidence of institutions/interventions playing a regulatory/facilitative role for private sector (e.g. establishment of grades & standards)	Monitoring of policy and regulatory reform and interviews with agribusiness owners/operators.

EXHIBIT 5: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level III - Agribusiness/Agricultural Marketing Strategic Objective

STRATEGIC OBJECTIVE	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
More efficient, lower cost marketing for agricultural commodities	• price differences across space reflecting costs (transport, handling, losses, and transaction costs) plus normal return to spatial arbitrage functions • price differences across time reflecting real storage costs (depreciation, interest, and losses) plus normal return to spatial arbitrage functions • price differences of unprocessed and processed agricultural commodities which reflect real processing costs (depreciation of plant and equipment plus variable operating costs) and a normal return for performing transformation functions • increase in number of private enterprises engaging in agribusiness/agricultural marketing activities by stage and by industry • increase in number of industries/links of the marketing chain which demonstrate workable competition • decrease in per unit marketing costs of specific commodities (with same traits over period of comparison)	• Key informant interviews • Transport cost surveys • Market information system • Storage cost surveys • Processing cost surveys • Firm registration records; yearly firm surveys • Market structure survey • Subsector studies

EXHIBIT 5: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level IV - Expected Outcomes

Objective	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
Increase in per unit producer prices which serves as an incentive to intensify agricultural production	• increase in prices at farm-level or primary collection points • increase in percent of f.o.b. price received by producer • increased farm expenditures per unit land, labor or capital • increased adoption of improved varieties; animal traction/mechanization; agrochemical use	Farm-level survey
Decrease in per unit consumer prices which enables consumers to increase their savings (investment) or consumer expenditures	• decrease in retail price of certain commodities • decrease in total household income spent on food • greater proportion of total household income in savings and investments	Consumer survey Focus groups
Increase in Agribusiness Investment and Gross Returns	Enterprise Specific: • return on investment • profits on sales (operating profit) • sales trends/levels • employment trends/levels Sectoral Level: • number of new enterprises • number of enterprises that fail • number of employees • value of sales • value of exports	Agribusiness survey Industry and tax data — Ministry of Industry or Commerce

EXHIBIT 6: SHORT-RUN AND LONG-RUN MEASURES OF MORE EFFICIENT AGRICULTURAL MARKETS

Short-Run Measures	Long-Run Measures
• Increase in producer prices (by commodity): - in real terms (expressed in local currency) - in percent of world price • Decrease in consumer prices (by commodity, for comparable commodity grades) • Decrease in marketing costs for performance of specific marketing tasks (by commodity) • Agricultural inputs delivered to smallholders at reduced cost per unit • Increase in trader and agribusiness firm gross returns • Net increase in number of agricultural sector private firms/participants - number of private traders/dealers - number of agribusinesses - entrants > failures • Increase in investment in agribusiness - foreign investment - large-scale capital-intensive processing - value-added cottage industries - agricultural trading firms • Smaller price variations across time and space - coefficient of variation - seasonal price indices - intermarket price correlations	• Increased diversification at farm-level - increased acreage planted to non-traditional export crops • Increase in non-traditional export earnings and increased income from off-farm enterprises • Increased range of products available to consumers • More nutritious products available to consumers • Decrease in post-harvest losses/waste and the cost of storage (commodity and firm or farm specific) • Use of better packaging/storage/processing techniques • Lower marketing costs, with cost savings distributed among producers, traders, transporters, processor, exporters, etc. • Increase in percentage of profits reinvested in improved techniques, management, information • Increase in value-added activities • More information readily available to producers, consumers, and other marketing participants • Increased economies of scale and scope - larger firms with higher volume - lower costs per unit throughput - backward or forward integration that lowers costs - investment in improved technologies and management system

8. Information Needs and Gaps

The information needs of the public and private sectors overlap somewhat but are essentially very different. These distinct needs are described below along with a preliminary assessment of the Africa Bureau's role in collecting and disseminating this information.

8.1 A.I.D. Information Needs

Information is an important factor in A.I.D.'s ability to contribute to country development. Identifying which problems or constraints A.I.D. should and can address; what combination of resources and approaches should be employed; and subsequently, whether the A.I.D. program or project was successful, are all necessary steps that are dependent on the availability of information. Information is required at essentially two steps of the A.I.D. process. At the outset, information is required to identify constraints and opportunities and to design the A.I.D. project or program response. As described in chapter 7, after implementation has begun, information is required to monitor and evaluate project or program performance and the impact on the overall objective. While the information needs at these two steps do overlap, differentiating them proves helpful. Exhibit 7 lists important quantitative and qualitative information requirements.

At the first step, problem identification and project design, information needs range substantially from broad macroeconomic indicators to more descriptive indicators of the agricultural sector. Information at this stage is needed to assess the importance of the agricultural sector in relation to the overall economy and to roughly evaluate agricultural sector performance and potential. Both of these assessments will help answer the question of whether agriculture should be a priority area for A.I.D. or whether scarce resources would be more appropriately invested in other sectors. Specific indicators that will contribute to this assessment include the agriculture sector's contribution to GDP, agricultural sector employment as a proportion of total employment, agricultural exports as a proportion of total exports, and growth in agricultural output. Other broad indicators, such as the inflation rate, interest rate, unemployment rate, population growth and debt service ratio provide important contextual information for agricultural development and cast light on some of the general constraints facing agricultural development. Broad indicators such as these are commonly available from African government organizations or international donor agencies.

More specific information on the agricultural sector is needed to help narrow down where within the agricultural sector A.I.D. should focus its resources. Identification of important food and cash crops, trends in production yields and food imports, and examination of agro-climatic conditions, resource availability and farmer characteristics should help identity where opportunities exist and where A.I.D. investment would have the greatest desired impact. Much of this type of information is also available from government sources.

Once specific crops or regions are identified for assistance, more in-depth research is necessary to adequately identify problems or opportunities, and to subsequently design an

EXHIBIT 7
INFORMATION NEEDS

PUBLIC SECTOR AND DONORS

GENERAL MACROECONOMIC, SOCIAL AND POLITICAL INDICATORS
- Overall and Urban Population Growth Rates
- Rural/Urban Population Ratio
- Literacy Indicators
- Distribution of Wealth
- Characteristics of Political Structure
- Debt Service Ratio as a Percentage of Total Exports
- Inflation Rate
- Interest Rates
- Unemployment Rate

AGRICULTURAL SECTOR IN RELATION TO OVERALL ECONOMY
- Agricultural Sector's Contribution to GDP (%)
- Growth in Agricultural Output
- Ag. Sector Employment as Proportion of Total Employment
- Agricultural Exports as Proportion of Total Exports
- Food Production as Proportion of Food Availability
- Primary Food Imports
- Trend in Per Capita Food Imports
- Trend in Agricultural Terms of Trade
- Trend in Food Price Index

CHARACTERISTICS OF AGRICULTURAL SECTOR
- Primary Food Crops (by value, number of farmers, area)
- Primary Cash Crops (by value, number of farmers, area)
- Trends in Production Yields (by area, labor)
- Agro-climatic Conditions (seasonal characteristics, soil types, water availability)
- Land Availability (Arable land not under production)
- Proportions of Food and Cash Crops produced by small-scale farmers
- Nominal and Effective Protection of Key Subsectors
- Geographic Distribution of Production
- Consumption and Production Trends in World Markets for Exported Crops
- Proportion of Production that is Marketed

ORGANIZATION AND CHARACTERISTICS OF MARKETING CHANNELS BY COMMODITY
- Structure of Marketing Channels (Number of channels, Stages of transaction)
- Coordination and Integration Between Stages
- Relative Importance of Marketing Channels (Quantity marketed)
- Characteristics of Market Participants (number, size, concentration, geographic distribution)
- Regulations Affecting Marketing
- Characteristics of Infrastructure
- Implication of Commodity Characteristics on Marketing (Perishability, grades)
- Consumption Patterns (seasonality, regional differences)
- Identification of Institutions that Affect Production or Marketing
- Bottlenecks and Constraints to Marketing

PERFORMANCE OF MARKETING SYSTEM BY COMMODITY
- Spatial Pricing Efficiency - Price Variability Across Space
- Temporal Pricing Efficiency - Price Variability Across Time
- Margins for each Transaction Level
- Returns for each Transaction Level
- Market Concentration (Degree of Market Control)
- Proportion and Sources of Post-Harvest Losses
- Price Differentiation for Quality

PRIVATE SECTOR

INVESTMENT CLIMATE
- Labor Costs
- Availability of Skilled Labor
- Tax Structure
- Interest Rates, Loan Availability
- Sources of Local Equity Capital
- Import Duties, Other Import Restrictions
- Policy and Regulatory Environment
- Investment Incentives
- Availability of Supporting Services

PRODUCTION FOR DOMESTIC MARKET
- Crop Production Estimates by Season and Region
- Raw Material Supply - Volumes, Prices
- Agroprocessing Costs
- Utility Costs and Availability of Services
- Transportion Costs and Availability
- Consumption Estimates, Patterns and Trends
- Demand Estimates
- Major Potential Buyers
- Volume and Prices of Competing Imports
- Wholesale and Retail Prices of Competing Products

PRODUCTION FOR EXPORT MARKET
- All above, except last two, and:
- * World Production, Ten Year Trends, Forecasts
- * Volumes Traded on World Markets for Major Trading Co
- * World Market Price and Demand Trends
- * Major World Producers, Future Outlook
- * Timing of Seasonal Windows of Opportunity
- * Names and Addresses of Major Importing Firms
- * Packaging Requirements
- * Quality Standards
- * Shipping Costs and Availability
- * Export Regulations in Producing Country
- * Import Regulations/Tariffs in Importing Country
- * Availability of Trade Financing
- * Phytosanitary Regulations

* Potential Africa Bureau Role

appropriate A.I.D. response. **The Strategic Framework recommends the use of a commodity systems approach in which the entire commodity system, from production to consumption, is examined as a whole.** This system approach focuses on the economic organization and performance of the marketing chain and the external factors that influence it. This type of analysis provides some insight into the relative efficiency at various stages in the commodity system and in determining the marketing system's level of development. More basically, by examining the movement of commodities over time and space, the bottlenecks in the marketing system often become more transparent.

The commodity systems approach focuses on the structure, conduct (behavior of market participants) and performance of the marketing system. Examination of the market structure begins with the identification and description of marketing channels that make up the commodity system. A flow chart or subsector map that depicts the relative importance of each channel and the various levels of transactions in each channel (stages) is commonly used. Statistics that describe structure include percentage of production marketed by channel, and number and concentration (relative importance) of market participants at each stage of the commodity subsector. Factors that have contributed to the structure such as policy environment and investment climate should also be reviewed. More in-depth analyses may examine the marketing structure by season or region.

Conduct, or behavior of market participants, is theorized to be closely related to structure. For instance, a market structure that is highly concentrated (dominated by a few firms) is thought to be less influenced by competitive pressures. Hence, firm conduct in such areas as pricing policy, choice of product quality or efforts to achieve strategic advantage may be more self-serving than in a competitive environment. This could lead to relatively high returns for those firms exercising market power and less than optimal system efficiency. Examination of conduct is less amenable than structure to clear cut quantitative indicators and is more appropriately described in qualitative terms. Further, information on conduct is costly to obtain and available primarily through firm level interviews of market participants.

Once the structure and conduct of participants have been examined, the next step is to identify constraints to improved efficiency of elements of the marketing system. Many constraints will have become evident during the analysis of structure and conduct. Definition and ranking of constraints can be refined through direct questioning of market participants about their needs and concerns. Comparisons of actual market conditions to the stages described within the Strategic Framework can also help identify constraints that are likely to emerge during the next stage of development.

At the second phase of the A.I.D. design and implementation process—monitoring and evaluation—very specific quantitative indicators of marketing system performance are required for effective assessment of project impact. As described in chapter 5, aspects of the marketing system that should be evaluated include spatial and temporal price behavior, cost efficiency, and progressiveness (long term improvement). All but progressiveness rely on collection and analysis of price and cost data. Primary indicators used to measure spatial

integration include the magnitude of price variability across markets and the correlation of price movements between markets. Primary indicators of temporal coordination are the magnitude of price variability over time and seasonal indices. In the short run, operational efficiency can be measured by the size of the marketing margins. As mentioned in the previous chapter, comparisons of marketing margins over the long run are not an appropriate indicator of performance, as the degree of value added to the product typically increases over time. A more accurate but more costly and often difficult measure to collect is the return received by marketing firms performing similar functions.

8.2 Private Sector Information Needs

Agribusinesses depend on information to identify opportunities, direct investment, and to help make day to day operating decisions. The information needs of agribusiness vary substantially with the complexity of the transformation and the level of risk involved. At one end of the spectrum—domestic traders of unprocessed commodities—timely information on prices in production areas and local markets may be sufficient. At the other end of the spectrum—agribusinesses that process commodities and sell in world markets—the level and cost of information required, and the sophistication with which it is interpreted, are much more substantial.

Basic information requirements of agribusinesses that buy and sell in domestic markets include timely price information by market or region, production estimates and consumption patterns, transportation costs, consumer preferences, government policies and regulations, and knowledge of potential buyers. Lack of any of the information listed above increases risk significantly. For example, a majority of traders of horticultural products in Kenya interviewed recently stated that they would not transport, and some would not even buy, a commodity unless they were fairly certain of the prices and general conditions in their target market. Further, traders that had been in the business for some time had developed informal systems for regularly-obtaining this information. Conversely, the lack of access to this type of information can act as a severe barrier to entry and thus inhibit agribusiness development.

Similarly, traders who store commodities for later resale want to be fairly confident about future market conditions. Knowledge of crop production forecasts, import and consumption estimates, and trends in interest rates are essential to storage decisions. Included in this is information on future donor commodity import programs and changing government policies and regulations that may influence the level of imports or resale costs.

Firms that process agricultural commodities require additional information to adequately coordinate the production process and to offset the risk associated with long-term investment in buildings and equipment. At a minimum, coordination of the production process requires knowledge of availability and cost of key inputs such as machinery, labor, packaging, and raw material. For firms that rely on imported inputs, such as special packaging, chemicals for processing, or machinery, knowledge of import duties or other import restrictions is also necessary. To offset the risk associated with investment in buildings and equipment, longer-term

projections of commodity production and market trends are necessary. Investment also requires information on appropriate technology, sources and costs of financing (loans and equity capital), government investment incentives, tax regimes and—very importantly in the developing country context—insight into potential changes in the policy environment.

Firms that wish to export agricultural products often lack the ability to identify potential markets and buyers and assess relative competitiveness. A basic profile of world trading patterns for specific agricultural commodities is a place to start. Information such as quantities imported by country, trends and forecasts of demand for importing countries, trends in world price, and seasonality of imports and domestic production can help identify potential markets and seasonal windows of opportunity. Ideally, the firm should also have information on consumer preferences (e.g. variety, quality, packaging), demand elasticities, and availability and demand for substitutes for potential countries. Knowledge of the competitive environment requires analysis of world production trends and forecasts, volumes traded on world markets, prices of competing produce in major import markets, and the capacity of other producing countries.[24]

As opportunities are identified, more specific knowledge on how to actually export the product is crucial. Information on standard packaging, labeling and shipping specifications, shipping cost and availability, quality requirements, standard marketing practices, available financing arrangements, and perhaps most importantly, how to locate potential buyers, are all necessary before an agribusiness can export. Exporters also often have to untangle confusing or cumbersome regulations of the importing country. For example, exporting horticultural products to the U.S. requires knowledge of phytosanitary regulations enforced by the USDA, food safety and labeling regulations enforced by the FDA, pesticide regulations enforced by the EPA, and tariffs and non-tariff barriers (i.e. quotas) enforced by the U.S. Customs Service. Moreover, regulations, licensing and fee requirements of the exporting country may be just as confusing. In both cases, how the regulations are enforced in practice is not necessarily clear from the written regulations.

8.3 Data Gaps and the Possible Role of the Africa Bureau

The quality and level of information available to agribusinesses and A.I.D. missions varies significantly throughout Africa. For example, prices of traditional and some non-traditional commodities in important world markets are readily available to local agribusinesses in Kenya through government agencies. Also, many of the macroeconomic and sectoral indicators required by USAID/Kenya are available because of donor collection efforts and donor support for government data collection activities. For many other countries, however, information often desired by agribusinesses is not easily accessible. Moreover, macroeconomic

[24] The capacity of competing countries requires knowledge of their production and export shipping capacity (by season), as well as plans for expansion and introduction of new varieties or products embodying higher levels of processing and convenience.

or sectoral data for many countries are not reliable and often inconsistent. Locating macroeconomic and sectoral information is also time consuming and often depends on luck in conducting searches of probable sources. Sectoral data, in particular, that are collected for a particular purpose, are often buried in studies which are not widely distributed or known.

Much of the information required by USAID missions to identify problems and design responses is country specific. As mentioned in the scope of work, though, collection of information at the country level is outside the role of the Africa Bureau. Nonetheless, there are tasks that the Africa Bureau could undertake to support mission efforts in this respect. More importantly, there is a **significant role that the Africa Bureau could play in meeting the information needs of agribusinesses.** A preliminary list of possible tasks is listed below:

- **Trade and price data for traditional and non-traditional exports in major world markets could be assembled more easily in Washington than in the field and distributed to missions for dissemination through A.I.D. projects or government agencies.** Alternately, A.I.D. could provide funding to government agencies for the purchase of commercial market news services, such as those provided by the International Trade Centre's (ITC) Market News Service or COLEACP (*Comité de liaison Europe-Afrique-Caraibes-Pacifique (pour la promotion des fruits tropicaux, légumes de contre-saison, fleurs, plantes ornamentales et épices)*).[25]

- The Africa Bureau could promote the **development of a direct referral service** in conjunction with the chamber of commerce or trade associations for agribusinesses interested in exporting to the U.S., exploring joint venture opportunities, and evaluating U.S. sources of equipment and commodity-specific technical assistance.

- A report **clarifying import regulations** and other considerations for potential exporters of selected commodities to selected markets would be useful to many agribusiness firms in many African countries.

- The Africa Bureau could provide support to missions for **cataloguing donor studies and data collected under donor-funded projects and programs, and serving as a clearinghouse for studies and data sets which could be made available to missions and other interested parties.**

- ARTS/FARA could also **play a more active role in disseminating the findings of centrally funded analytical studies** relating to agribusiness development, trade and investment promotion, marketing policy reform, and public sector support to agribusiness. The recent ADO Conference on Agricultural Marketing and Agribusiness

[25] COLEACP is an EC-funded network of horticultural, ornamental and spice exporters and export promotion agencies in the ACP (Africa, Caribbean, Pacific) countries that are parties to the Lomé Convention. COLEACP maintains an office at the Rungis wholesale market in Paris.

in Africa, held in Baltimore in July 1992, is one excellent way to disseminate study findings.

9. Agribusiness Development and Trade Promotion in Africa: Recommended Future Directions

This summary chapter first examines stages of agricultural marketing system development and appropriate interventions for upgrading marketing systems at different stages of development (Section 9.1). Section 9.2 presents a way of classifying African countries, based on limited information, as to their suitability for different types of agribusiness promotion programs. Section 9.3 will present agribusiness trade and investment promotion approaches suitable for category 1 countries. Section 9.4 will summarize an analytical agenda for promoting domestic agribusiness development and intra-regional trade in category 2 countries.

9.1 Stages of Agricultural Marketing System Development and Appropriate Agribusiness Strategies

In Towards an Africa Bureau Agricultural Marketing Strategy and Action Plan (1990), AMIS developed a framework showing the evolution of agricultural marketing systems in African countries as an organizing construct to help A.I.D. officers think about appropriate policies, programs and projects at different stages of development. This was incorporated into the Strategic Framework (see Annex B). This framework, depicted in Exhibit 8, presented five stages of marketing system development, of which the first three were relevant to the African context. The particular stage into which an agricultural marketing or commodity subsystem falls is determined by a series of **driving forces**, which are essentially causal variables that shape or drive marketing system evolution. These include income, urbanization, technology, the legal environment, market system organization, the policy environment, infrastructure (transport, telecommunications, electricity/water), and financial institutions and services.

Exhibit 8 also shows developments in associated factors in input and output markets, which characterize or are associated with different stages of system evolution. Key factors addressed are as follows:

- **Input Markets:** seed, fertilizer, other agrichemicals, agricultural equipment, labor. Types of cash inputs used and the degree and sophistication with which they are used. Distribution and extension networks.

- **Output Markets:** post-harvest, processing and storage technologies used; characteristics of exchange and risk-reducing mechanisms; sources and uses of market information; evolution of grades and standards; extent and nature of marketed surplus; share of marketing and processing value-added in consumer price.

Countries at different stages of marketing system development require different mixes of policies, infrastructure investment, and efforts to strengthen human capital. African countries in stage I require basic infrastructure investments, improvements in agricultural productivity, and

Exhibit 8 Agricultural Marketing System Evolution: Driving Forces and Associated Factors

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 urban 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 seen in high-yielding varieties, and farms use fertilizer and agro-chemicals. Improved storage and processing techniques. Refrigeration (and cold storage) become widespread.	Virtually all farms use 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-harvesting handling, and other functions. Computers assist in determining optimal crop or food mix, inventory levels, and firm financial/marketing management.
Industrialization	Artisans produce agricultural implements and 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 machinery assembly and fertilizer mixing plants to full-scale industrialization. For most part, country achieves a scientific and industrial base.	Scientifically advanced, industrial society, with many "post-industrial" 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 increase in performance of other marketing functions (e.g., retailing). Small-scale, inefficient operators disappear, except where able to provide great 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 transport 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. Airports and ports achieve state-of-the-art.
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 telex/fax linkages strengthened. Telecommunications in major cities.	Telephone service penetrates into most rural areas. International telecommunications network deepened; secondary towns integrated into it.	Telecommunications 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 available part-time. Pumped municipal water supply available in few cities. Sewage and waste disposal systems underdeveloped 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 mis-representation 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 also change to accommodate changing 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/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 ag 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.	Farm; financial institutions become stronger, more diversified and deeper. Informal financial arrangements of declining importance. Longer term loans for farms, processors, traders requiring investment capital become increasingly available.	Farm and firms able to use commodity exchanges and futures markets to commodities and currencies to manage risk. Financial system well-integrated into global financial markets.

Exhibit 5 (cont.) Agricultural Marketing System Evolution: Driving Forces and Associated Factors

Associated Factors Driver Variable	Stage I	Stage II	Stage III	Stage IV	Stage V
Spatial Organization of Markets	There a few periodic, localized markets drawing from circumscribed areas.	The number and size of periodic markets expands. These serve increasingly as linking 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 consumers does not justify grading.	Informal grades and standards are applied by the private trade, although they are not always consistent.	Governments intervene in markets to develop clear, enforceable 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 weights and measures 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.).
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 produce 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 Marketing	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 stapleo 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 become 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. Government may begin to provide limited, but typically not very timely market news.	More available, 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 the radio.	Up-to-date public market information is widely available and used. Private information services develop to meet the demands of 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 price information may become less representative and timely. National and global supply and trade information becomes widely available and critical for trading decisions in internatl. 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 much of the surplus.	Most producers develop a commercial orientation. Production of a marketed surplus is planned. Most farm production is sold, so this surplus becomes the major source of farm income.	Farms sell essentially all of their output and buy processed, ready-to-cook foods in rural or small town retail outlets.	Corporate mega-farms sell all of their output.
Marketing 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 for performing particular marketing functions decline, gross marketing margins continue to increase as more value is added to the marketing process.	Farmers capture a smaller share of the consumer dollar, as time, form and place utilities are added to food 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.

Exhibit 8 (cont.) Agricultural Marketing System Evolution: Driving Forces and Associated Factors

Associated Factors	Stage I	Stage II	Stage III	Stage IV	Stage V
Input Markets					
Seed Industry	Farmers retain seed. No government or commercial multiplication or 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 private 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., grain, tubers, legumes).	Fertilizer is used increasingly on staple food crops, particularly grains. Fertilizer application is often below optimum 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 on 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 credit 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 process 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 large 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.
Output Markets					
Post-Harvest Technology	On-farm storage and processing. Storage in artisanal and unimproved with typically high losses. Unmechanized, labor-intensive handling and processing methods.	Short-term commercial storage generally without use of fumigation. 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 foods.	Post-harvest handling practices continue to improve, especially for higher-value, 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. Processing, 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.

the creation of a macroeconomic, policy and regulatory environment that supports private investment and initiative. The public sector will in most cases play a more active role in countries in stage I than in countries at other stages of marketing system development. This is because the private sector is likely to be weak and unable to perform some necessary marketing functions. Special care needs to be taken to avoid the mistakes of the 1970s and 1980s in Africa, when donors and African governments overinvested in parastatal marketing boards, financed parastatal operations at subsidized rates of credit (and allowed boards to run up large deficits), and crowded private marketing agents out of some agricultural marketing activities.[26]

African countries in stage II require a different mix of interventions than countries in stage I:

- Greater emphasis on infrastructure maintenance of main grids rather than investment.
- Yet better rural road networks to service farmers who produce surpluses.
- Refined mandates and roles of marketing boards (providers of services such as market information, regulators of the private trade, and enforcers of grades and standards).
- Strengthened policy, regulatory and legal frameworks for facilitating private enterprise.
- Special incentives or subsidies to encourage emergence of private agents in performance of marketing functions previously dominated by state.
- Agricultural research beyond the farm to focus on improving technology of marketing and processing functions.
- Government regulation of private agro-input suppliers to assure competition and minimize abuses.

African countries in stage III require yet a different mix of interventions than countries in stages I and II. These include:

- Telecommunications upgraded for export promotion.
- Improved infrastructure in secondary towns or export processing zones.

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[26] In some subsectors, particularly grains, African governments made private wholesale trade illegal. In others, private trading activities were geographically circumscribed or restricted in other ways. Fixing marketing agent margins, through producer and consumer price controls, squeezed many operators out of business. Government attempts to quantify traders' marketing costs were often underestimates.

- Policy reform and regulatory streamlining to promote exports.

- Introduction and mastery of export crop production, post-harvest handling, processing, storage and shipping technologies.

- Uniform grades and standards, with particular attention to satisfying international sanitary and phytosanitary regulations.

- Export commodity-specific training and extension programs.

- Increasing accessibility and sophistication of financial instruments to meet needs of exporters (letters of credit, currency convertibility and hedging).

- Legal system that enables firms to enforce contracts (and penalize non-compliance).

- Secure land tenure and emergence of private land markets. Secure tenure encourages investments in land improvements, such as irrigation and drainage.

A key conclusion to draw from this discussion of marketing system stages is the dynamic nature of marketing system evolution, whereby the most binding constraints and appropriate interventions to alleviate them will differ by stage. A.I.D. needs to develop an iterative and flexible process of constraint identification, thorough diagnosis of constraints, formulation of prescriptions for alleviating constraints, and monitoring and evaluation of policy reform, programs and projects. Prescriptions can take the form of policy and regulatory reform, innovations in marketing system organization, training to strengthen human capital development, technology innovations and their dissemination, infrastructure improvements and better maintenance, and other public-good types of investments, such as market information services.

A specific example of the utility of thinking carefully about the stages of marketing system development is that high-level technology solutions to problems in post-harvest handling, storage and processing are not suitable in countries with poor infrastructure, limited capacity to operate and maintain sophisticated equipment, and a low level of work force skills (stages I and II in the marketing system). Another insight from the stages framework is that the role of the government will change over time from one of major investor in basic marketing infrastructure (roads, ports, communications) and provider of marketing services to one of regulating an increasingly sophisticated system through enforcement of grades and standards and sanitary and phytosanitary regulations, as well as ensuring that marketing power does not become too concentrated. Similarly, African governments play an important role in developing, adapting and extending improved agricultural technology in stages I and II of marketing system development; this will change for most higher-value commodities by stages III and IV, when the private sector will finance and undertake technology development and provide extension services

to buyers of technology.[27] Finally, the legal environment will become more sophisticated as an African country moves from a lower to a higher stage. Contract law, secure land tenure, and a judicial system for adjudicating claims will emerge as contracts are used increasingly to assure buyers of reliable sources of supply and sellers of market outlets, and to manage risk, as well as to ensure ownership of land where upgrading of storage/processing facilities will be undertaken.

It is important to note that there are pitfalls in trying to classify African countries according to the degree of development of their agricultural marketing systems:

- Marketing systems change over time. Classification of a country's marketing system at one point in time risks pigeon-holing that country.

- Marketing system development differs by commodity subsystem. It is possible to have a well-developed and coordinated subsystem for export of a traditional cash crop, such as cotton or cocoa, and a poorly developed subsystem for coarse grains or tuber crops.[28]

The AMIS team recommends that inter-country comparisons be made across commodity subsystems, rather than across agricultural marketing systems as a whole.

An ancillary critical driving force for marketing system development, which is really part of the conditioning environment, is the policy and regulatory environment (or enabling

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[27] Note that provision of after-the-sale information and extension is part of the commercial transaction when users buy agricultural or upstream post-harvest handling, processing and marketing technology.

[28] Senegal's cotton production and marketing system might be characterized as falling in stage 3. The coarse grain marketing system, particularly in the more sparsely settled regions of Senegal, can be characterized as stage 2. Some horticultural exporters organize and operate their businesses in a way that could be considered stage 4.

In order to arrive at a cumulative ranking, weighted across subsectors, one could devise a weighting scheme which used contribution to agricultural GDP, subsector employment, foreign exchange earnings or some other criterion as a yardstick for calculating weights. Since the "stages" are approximate and lack precision, applying some quasi-scientific weighting scheme to an ordinal scale seems like a specious undertaking.

A comprehensive ranking of agricultural marketing systems across African countries is conceptually flawed, as most countries' systems are comprised of subsystems at different stages of marketing system development. As a compromise to the idea that we should focus on ranking of similar commodity subsystems across countries (rather than on entire agricultural marketing systems or agribusiness across all subsystems), ranking could indeed be done with particular attention to key subsystems. Hence, alternative ranking schemes would be developed, depending upon whether one wished to focus on horticultural products, coarse grains, or oilseeds.

environment). This is a key criterion which can be used to rank countries with respect to their suitability for agribusiness trade and investment promotion. Evaluation criteria to keep in mind focus on the extent to which African governments have:

- undertaken structural adjustment and trade policy reform (exchange rate; harmonization and reduction of tariffs);
- implemented these programs seriously without backsliding or falling out of compliance; and,
- worked closely with the private sector to facilitate investment and an enthusiastic response to market liberalization measures.

The seriousness and effectiveness with which African governments have implemented economic and agricultural policy reform should be in most cases the **key classification variable** that should govern whether A.I.D. decides to support agribusiness trade and investment promotion in particular African countries. This needs to be tempered, of course, with critical assessments of the agricultural resource base, infrastructure, and human capital in agriculture and agro-industry. Policy reform in an African country which is poorly endowed, has dilapidated infrastructure, and a low level of human capital formation may not be enough to justify A.I.D. or other donor investment in agribusiness trade and investment promotion. Another serious consideration is the extent to which African countries have met or exceeded expectations and timetables on policy and regulatory reform. USAID Missions may wish to reward African countries having poor resource bases and initial conditions with agribusiness programs, provided those countries have shown strong policy performance.

9.2 A Tentative and Illustrative Classification Scheme

In an ideal world of unlimited resources, the Africa Bureau and USAID missions in Africa would seek to promote agribusiness development in all African countries where there are A.I.D. programs. In the interest of effectiveness and impact, tough choices will need to be made regarding where A.I.D. promotes agribusiness development actively. This section will provide a preliminary classification scheme for African countries, categorizing countries into the following general groups:

- those African countries with favorable policy environments and initial conditions favoring agribusiness trade and investment promotion;
- those African countries with mixed records of policy and regulatory reform and less favorable initial conditions, where domestic agribusiness development and intra-regional trade should be promoted;
- those African countries where A.I.D. efforts should be concentrated on improving the enabling environment and not on active agribusiness promotion.

9.2.1 Group One Countries

Group one countries are those with the most favorable policy and regulatory environments and initial conditions, meriting consideration for significant A.I.D. investment in agribusiness trade and investment promotion programs. The key characteristics of group one countries are as follows:

- **Strong economic and agricultural policy reform record.** The longer the government's commitment to reform, the better. Recent, convenience reforms should be treated with suspicion, as the private sector will be skeptical of the government's long-term commitment to reform and private enterprise promotion.

- Evidence of a history of **disciplined, efficient parastatals**, or recent evidence of **parastatal restructuring.** Countries with well-functioning marketing boards providing a restricted range of needed functions efficiently, particularly agencies handling traditional export commodities, should not necessarily be downgraded. In cases where countries developed poorly performing, multi-purpose parastatal agencies that failed to achieve their objectives, recent commitment to redefining their mandates, restructuring their organizations and incentive systems, and divesting appropriate functions should be demonstrated and have hopefully yielded positive results.

- **Solid agricultural production base.** This can be judged with reference to the country's soils, water resources (and rainfall levels/regularity), access to well-watered arable land, and evidence of minimal degradation of the resource base. The mix of agricultural enterprises, yields and production levels (and trends) may also be considered.

- **Significant human capital.** There are several levels of human capital to consider. First is the general educational level (literacy, numeracy) of farmers, traders, agro-entrepreneurs, transporters, and other service providers. Second is the agricultural production, marketing and processing knowledge base in the food system. Third is the familiarity with and aptitude in operating in a private enterprise environment (i.e., commercial savvy, understanding of market economies). Third and least important is the extent to which government agencies (and to a lesser extent agribusinesses) are staffed with advanced degree holders (B.S., M.S., Ph.D.).

- **Extensive and well-maintained infrastructure and good international access.** The density of the road network, expressed in per sq. km. terms or related to population per sq. km. is an obvious indicator of the extensiveness of the road network. Evidence of bridges, navigable rivers, functional and well-operating railways, and good river ports is also important. Having a seaport with significant handling and storage capacity, as well as the capacity to load/unload containers, is key to international access. Telecommunications infrastructure (density of the international telephone grid — number of satellite connections, telex/fax capability) is critical to export marketing. Finally, having an international airport capable of handling cargo planes and with frequent,

reliable flights to high-income countries is an important consideration for high-end, high-value non-traditional exports.

Some examples of African countries that meet the above set of criteria, at least for the most part, are Uganda, Ghana, Zimbabwe (after the emergency food aid situation has been resolved), Kenya (if policy and regulatory reforms are sustained and expanded upon), and perhaps Cameroon. These countries meet the prerequisites for A.I.D. support of an agribusiness trade and investment approach. Section 9 will recommend how this approach can be implemented.

9.2.2 Group Two Countries

Group two countries will score lower on the above criteria and can generally be characterized as follows:

- **Resistance to policy and regulatory reform.** Group two countries may be currently out of compliance with the IMF and World Bank (or were out of compliance for extended periods in the recent past). These countries will pay lip service to macroeconomic and agricultural sector reforms but have a weak record of implementation.

- **Reluctance to restructure poorly performing parastatals.** These countries will insist that heavily subidized, underperforming parastatal agencies continue to receive special consideration and benefits. Private enterprise in subsectors dominated by these parastatal agencies will be suppressed and harassed. In some cases, African governments may grudgingly accept restructuring and divestment packages for certain parastatals, but they will hesitate to implement these packages fully or in a timely manner.

- **Mediocre to weak agricultural resource base.** Soil range and quality is lower than in the group one countries. Water resources are limited (i.e., little irrigation), and rainfall is typically too low or too high for high-yield agriculture or varies widely from year to year (and within years and across regions). Production per capita (or in absolute terms) is likely declining or holding steady for key commodities, and yields are low and stagnant or trending downward. Serious problems of resource degradation may be emerging in more ecologically sensitive agricultural production zones.

- **Mediocre to low level of human capital development.** Literacy and numeracy are relatively low in the private sector, hampering business aptitude and the capacity to use technology effectively. The analytical capacity of government agencies and formal sector agribusinesses is limited. Limited well-trained analysts and technicians leave government service for the private sector or jobs with donor agencies or outside the country; they tend to be replaced by poorly-trained, more junior staff.

- **Infrastructure is less well-developed or deteriorating, and access to international markets is more difficult.** The road network is incompletely developed and generally

poorly maintained. Some areas of potentially high agricultural production potential are isolated, undersettled and underutilized. River and rail transport does not exist or functions poorly. The country is landlocked or has no first-class international seaport. Air connections to other countries are limited and infrequent. Telecommunications are poorly developed, and it is difficult to get a line in or out of the country.

Some examples of group two countries are Mali, Malawi, Guinea, Rwanda, Togo, Chad and Niger. These countries are not considered suitable for vigorous agribusiness trade and investment promotion. We recommend that agribusiness promotion be limited to policy and regulatory reform in support of an enabling environment, and programs/projects which support the development of domestic agribusinesses producing for the local market or export to neighboring countries.

9.2.3 Group Three Countries

Group three countries are the most poorly endowed African countries, often facing civil conflicts, and showing limited commitment to policy and regulatory reform. We discourage agribusiness promotion programs in these countries. Rather, A.I.D. is advised to support policy and regulatory reform, the creation of a more positive investment climate for domestic and foreign investors, and investments in creation, rehabilitation and improved maintenance of infrastructure. The key characteristics of group three countries are as follows:

- **Commitment to and understanding of the objectives of policy and regulatory reform are weak.** There is ongoing civil strife, or a history of long civil strife in the recent past. Government leaders and technocrats have a poor grasp of necessary policy changes and action programs to stimulate development of a market economy. There is typically widespread corruption and little commitment to the law, property rights, contract law and other institutional preconditions of a market economy.

- **Weak agricultural resource base, with widespread evidence of serious environmental degradation.**

- **A poorly developed or completely dilapidated infrastructure.**

- **Very difficult and irregular international access.** These countries are more often than not landlocked, with poor transportation (road, rail) links to sea. Telecommunication links with the outside world are highly unreliable.

- **Very low level of human capital development.** Literacy and numeracy are at very low levels. There are few degree holders at all levels: primary, secondary, university, post-graduate. Understanding of market economies and principles is virtually nil.

- **Limited market economy** due to low incomes, population dispersion, poor infrastructure, and a weak resource base.

9.3.3 Initial Country Assessment and Selection of Approach

Having selected the Group One countries which are suitable for T&I promotion, the next step is to carry out an on-site country assessment to select the most appropriate approach to trade and investment (T&I) promotion. This assessment would best be carried out by an A.I.D. contractor experienced in working with the private agribusiness sector, in cooperation with the USAID Mission concerned. Among the issues to be examined are: the general level of development of the country, the investment climate, the state of the country's infrastructure, indications of the potential for agroindustrial development, existing Mission programs and priorities, government support for these programs, and the amount and depth of information available on the economy and on new business opportunities. A preliminary selection of priority commodities or commodity sectors would be made at this time.

Two basic approaches to T&I promotion are described below, though a combination of the two could also be used. What may be called the **traditional approach**, since it is so widely used, relies primarily on the dissemination of information on the local economy and the business climate, as well as referral services to local businessmen, to attract investors. It would be applied in the more developed countries where access to information was the main constraint to investment. The **targeted approach** is enterprise-specific and would be appropriate in a country where there were good prospects for development of export industries based on one or two specific crops, even though the general investment climate was not especially favorable.

Procedures which would be followed in implementing these two approaches to T&I promotion are described in the following paragraphs.

9.3.4 The Information Dissemination or Traditional Approach

Exhibit 9 depicts a T&I promotion scheme of the "traditional type" as it might be seen by an A.I.D. planner. Rectangles identify steps in the process; circles and elipses indicate points of intervention by A.I.D., A.I.D. contractors, and other donors.

Diagnostic Study of Marketing Systems: Using the initial country assessments as starting points, diagnostic studies would next be carried out in the selected countries to identify marketing constraints affecting the selected commodities as well as export market prospects. The methodology could be based on the AMIS Rapid Appraisal[29] and would provide the information base for planning of T&I promotion activities. The Rapid Appraisal would identify policy constraints as well as those having to do with the physical or business infrastructure, and would also highlight potential export and domestic markets for key crops. In cases where

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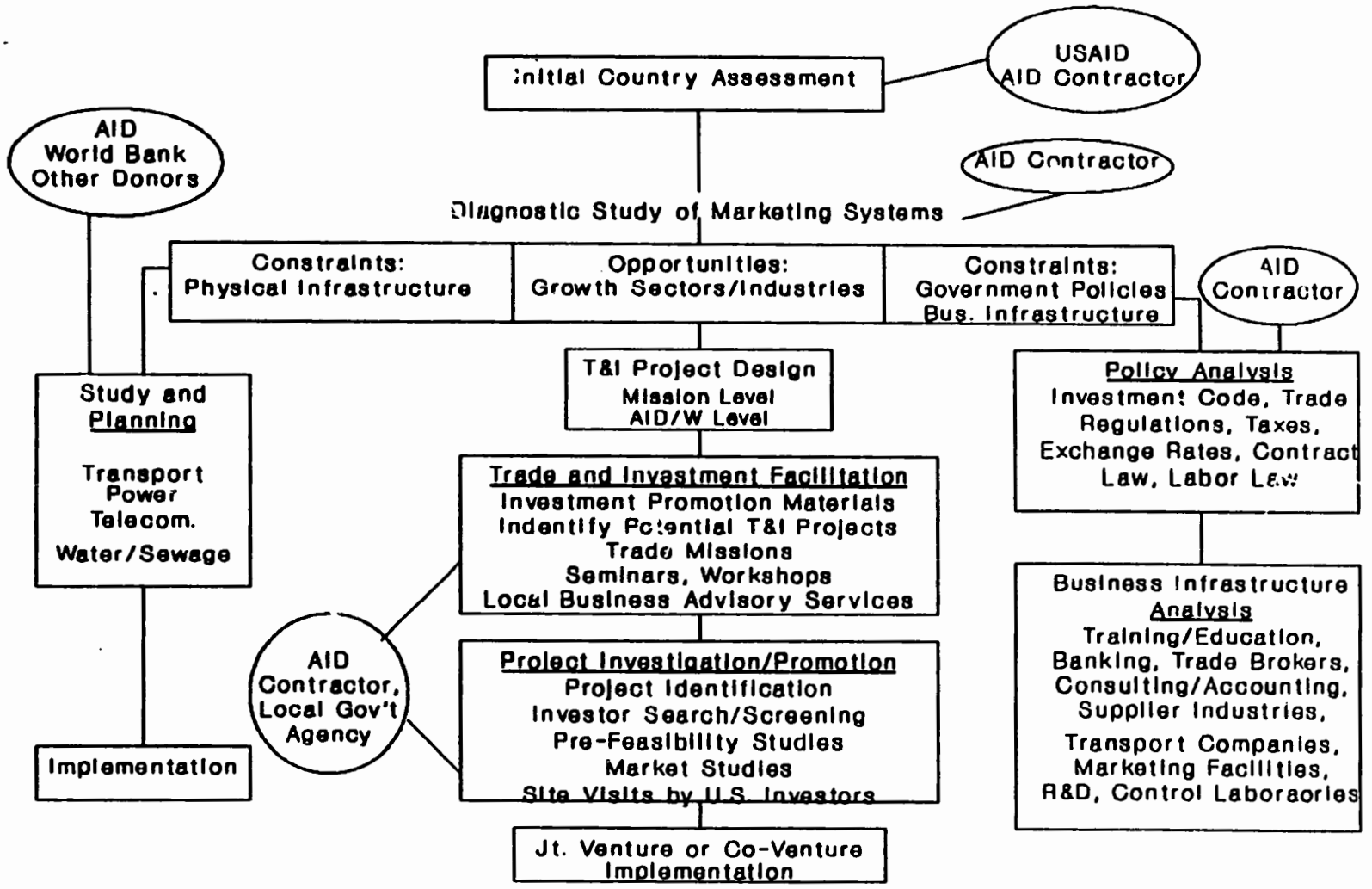
[29]See Holtzman, John S., Jerry Martin, and Richard Abbott, Operational Guidelines: Rapid Appraisal of Agricultural Marketing Systems, The AMIS Project, Abt Associates, December 1988.

EXHIBIT 9

AGRIBUSINESS TRADE AND INVESTMENT PROMOTION TRADITIONAL APPROACH



missions have already assembled most of the necessary data, and it would only be necessary to put it in a format consistent with the other assessments.

For example, constraints in the business climate stemming from unsuitable government policies or regulations could impede or block trade and investment activities. A.I.D. - host government dialogue, possibly supported by studies and technical assistance, would be called for to remove or ameliorate these constraints. Business infrastructure deficiencies in such areas as trade finance, public markets, education/training of prospective local employees, transport services, or supplier industries such as providers of packaging materials, would be noted and recommendations made to alleviate them. Infrastructure constraints would require A.I.D., World Bank, or other donor intervention.

Project Design: Assuming that a trade and investment promotion project appears feasible, project design then takes place at the Mission and A.I.D./W levels, possibly with the help of an outside contractor. The initial country assessment would serve as the basis for the design. The "MAPS" process (Manual for Action in the Private Sector) could be a useful source in project design.

Trade and Investment Facilitation Activities: A.I.D. has carried out projects of this kind for many years and a considerable reservoir of experience exists. The experience of other donors, such as the IFC, can also be drawn upon by project planners. Typically, investment and/or export promotion activities are the responsibility of an A.I.D.-funded local government agency. Or A.I.D. may contract with a U.S. firm to carry out this work. Activities could include any or all of the following:

- compilation of data on the agricultural economy;
- development of promotional materials on the economy of the country generally and on the investment climate;
- identification of potential trade and investment opportunities;
- sponsorship of trade missions from the U.S.;
- seminars and workshops for local businessmen on tapping into export markets;
- advisory services to local businessmen, including provision of experts in particular industries; and
- making recommendations to the host government on changes in policies regarding foreign trade and investment.

Project Investigation/Promotion: At this point in the process, potential investment and trade projects will have been identified. On-site investigations, pre-feasibility studies, and

market studies are now called for. The cost of such studies may be borne by an interested U.S. agribusiness firm, or may be partially supported by A.I.D. This approach would not include full-scale feasibility studies by consultants, which are then shopped around to potential investors. This so-called "UNIDO approach" has not proven effective.

This work completes the planning and study phase of promotion activities. From this point onward, we are dealing with actions leading to establishing specific investment or trade relationships between foreign and local agribusiness firms, a process sometimes referred to as "marriage brokering" or "deal brokering". Most A.I.D. programs of the type described in this paper did not go this far, and those that did had limited success because they were not equipped to handle this type of activity.

9.3.5 The Targeted or Fast-Track Approach

The more direct enterprise-specific or targeted approach dispenses with facilitation activities and goes directly to the project identification and investigation stage, then attempts to broker deals by matching up local and foreign investors and defraying some of the costs of project investigation and technical assistance. In less developed countries which offer fewer potentially viable business opportunities, the targeted approach would be more cost effective since it would concentrate resources where they would presumably do the most good. The presumption is that a well-conceived venture with the participation of a foreign agribusiness firm supplying know-how and possibly also capital, and with costs defrayed partially by A.I.D., could overcome the local constraints and succeed over the long term. As will be noted below, the targeted approach is more costly since it calls for A.I.D. to directly support the cost of project investigation and implementation. (A.I.D. could, of course, elect to use the targeted approach in the more developed countries as well.)

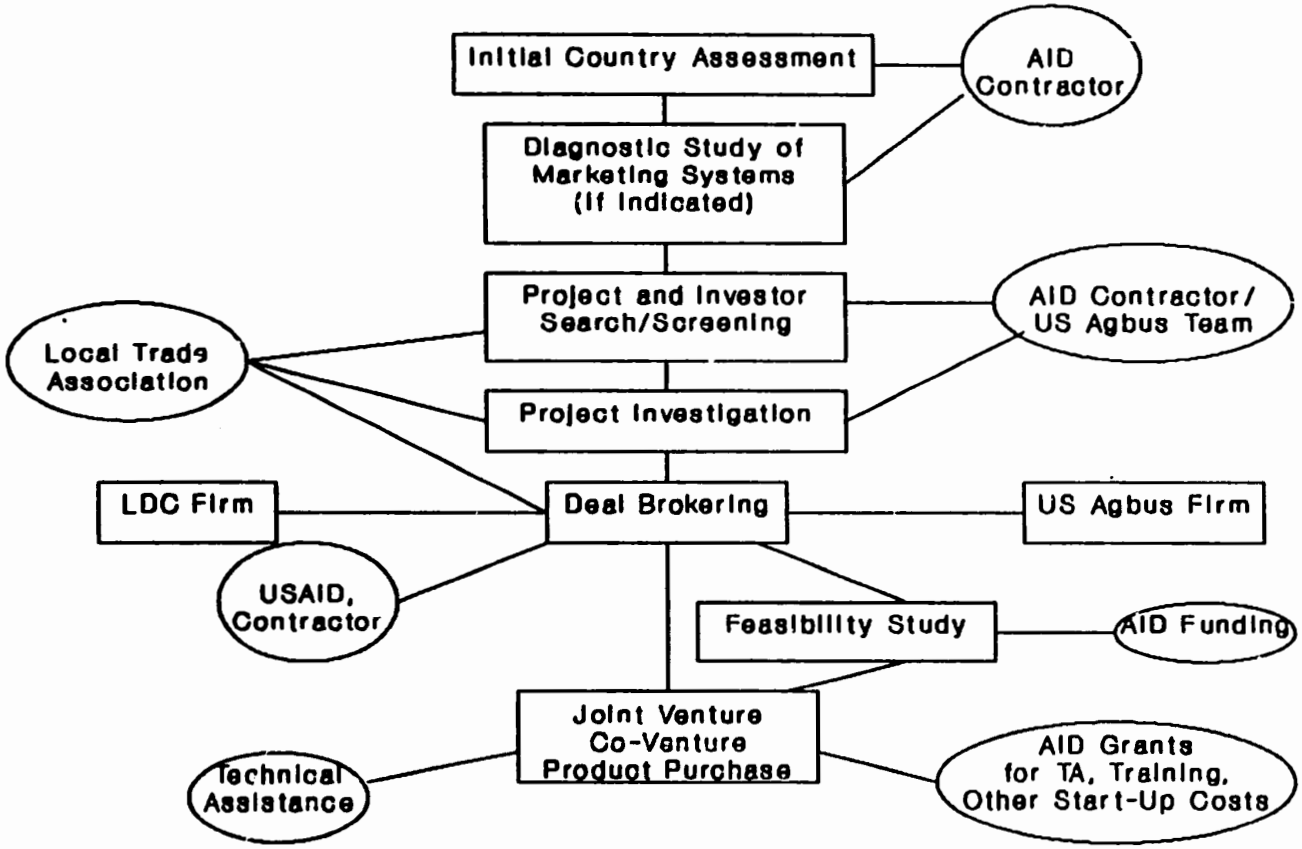
Exhibit 10 depicts a "targeted enterprise" approach to T&I promotion. It has been used sparingly to date but is becoming increasingly popular within A.I.D. One reason for its limited use is that it can involve direct assistance by A.I.D. to individual U.S. companies, which has in the past raised troublesome conflict of interest or ethical issues. As discussed below, A.I.D. policies are recently showing more flexibility in this regard.

This targeted approach may be recommended if the initial country assessment shows that the scope for new or expanded agribusiness ventures is limited, and that "traditional" T&I promotion programs are not likely to produce results. The World Bank study discussed above points out that with the help of local and foreign "catalysts", joint venture investments have succeeded in a number of countries in the absence of a favorable investment climate. The fast-track approach puts a premium on identifying these catalysts and getting them together to make something happen.

Diagnostic Study of Marketing Systems: It may be possible to reduce the scope of the diagnostic study if it is clear that only selected sectors or crops lend themselves to development. Likewise, it may be possible to promote an investment or trade relationship without full knowledge of these constraints, leaving the project itself to help clear away the obstacles.

EXHIBIT 10

AGRIBUSINESS TRADE AND INVESTMENT PROMOTION TARGETED OR FAST-TRACK APPROACH



Project and Investor Search/Screening: This search and screening process would be organized by an A.I.D. contractor with an intimate knowledge of U.S. and international business practices, and with experience and contacts in the U.S. agribusiness community. It would be carried out in cooperation with the USAID Mission by a team which should include specialists from U.S. agribusiness firms with interest in areas identified in the initial assessment. A local investment or export promotion agency and/or local trade association would assist the team with contacts in the local business community. The output of this phase would be profiles of potential investment projects. Representatives of equipment suppliers (such as food machinery companies) could also be members of the team.

Project Investigation: The investigation of the project or projects identified in the previous step would next be carried out, either during the same mission, or a succeeding one. Here also, reliance would be placed on the expertise of industry experts to prepare preliminary feasibility analyses which would serve as the basis for brokering joint ventures, co-ventures, or product purchase arrangements.

Deal Brokering: The work of brokering trade and investment projects (typically involving joint ventures between U.S. and local firms) would be carried out by USAID Missions or A.I.D. contractors. Identification of qualified and potentially interested U.S. partners requires a knowledge of the U.S. agribusiness sector and the skill and ability to make contacts with key individuals and to sell the firm on making a commitment to participate in the program. A.I.D. should consider employing the services of a contractor with personnel having private sector experience for this work.

Agribusiness companies which participated in the search and screening process would be natural joint venture partners in an investment project. A detailed feasibility study would most likely be carried out by the U.S. investor before a deal is finally negotiated, possibly with financial support from A.I.D. Support from A.I.D. may also be called for at this stage to establish financial, market and technical viability of the project, and possibly also in the form of loans or venture capital investment through a local A.I.D.-supported financial institution.

Post-Investment Assistance: Industry expertise in technical, financial, marketing, and managerial areas may also be needed once the joint venture is launched. Training should be an integral part of this effort, including internships at the U.S. company location.

9.3.6 Role of the U.S. Agribusiness Community

As will be evident from the foregoing discussion, it is our contention that U.S. agribusiness should play a much more active role in A.I.D. T&I promotion activities than it has in the past. U.S. agribusiness can contribute substantially to such efforts by providing the services of qualified staff, jointly with an A.I.D. contractor, to do the following:

- Participate in missions to identify agro-industrial sectors and enterprises with potential for development, particularly those with export potential.

- Prepare investment profiles or pre-feasibility studies for agro-industrial projects and identify prospective local investors.

- Through reports and personal accounts of the field work, generate interest on the part of their employer in pursuing contacts with developing country entrepreneurs with a view to establishing joint ventures, co-ventures, or product purchase arrangements.

- Prepare feasibility studies which cover technical and financial aspects of a proposed investment.

- Provide both pre-investment and post-investment technical assistance to upgrade production facilities of existing enterprises to meet export standards.

- Provide training for local employees of a joint venture, either on-site or through internships in a processing plant of the U.S. partner.

Perhaps most important of all, the U.S. firm can furnish a market for the finished product, either through intra-company trading in the case of a joint venture, or simply by purchasing the product of the local enterprise which was the recipient of technical assistance provided under a T&I promotion program.

A.I.D. programs should provide a mechanism for the use of these agribusiness company employees on a paid basis in connection with T&I promotion programs in countries where immediate investment prospects are dim, and for partial defraying of expenses in other situations. This recommendation echoes one in a paper prepared in July 1991 by an Administrator's Fellow from the private agribusiness sector, Fernando Gumucio, which calls for "establishing a grant fund to defray the cost of preliminary business studies and related activities. This could leverage a much larger investment by minimizing the private sector's risk of investing in a given developing country."[30]

To gain some perspective, it is helpful to note that there are different categories of firms with differing interests within the agribusiness community.

Food processors may be interested in joint ventures with local food processing firms to develop lower-cost sources of supply or to have a manufacturing base nearer to foreign markets. A number of the larger U.S. food processors have operated subsidiaries overseas for many years. Examples are Dole, Hunt Wesson, Del Monte, and Heinz. Other companies who do not have off-shore operations do source product abroad. The latter firms have an interest in acting as twelve-month suppliers to their customers — "keeping the pipeline full" — and so may buy off-season from the southern hemisphere, or buy on a spot basis to make up shortfalls in U.S.

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[30] Gumucio, Fernando. Enhancing A.I.D.'s Private Sector Initiative Through Agribusiness, July 1991.

supply. The large "transnational" firms, such as those mentioned above, and multinationals such as Nestle and Unilever, have many years' experience working in developing countries. They know how to assess the feasibility of setting up operations in these areas, and usually have already established their own priorities in terms of new investment locations. Nonetheless, A.I.D. support in covering project investigation costs could tip the balance in favor of a given country if the business climate there is generally favorable.

Smaller companies, on the other hand, may be interested in investments abroad but do not have the resources to make these investigations. Typically, they need a whole range of support in-country, including information on business conditions and regulations and introductions to potential partners in the local business community. Credits, loan guarantees, and even venture capital may be necessary to bring about an investment.

Commodity marketing companies, such as feed grain and soybean companies, are primarily interested in exports. Investments abroad would probably be limited to port receiving facilities. They would, however, be very interested in projects which develop new markets for them, such as a poultry industry. There could be interest in providing know-how in feed formulation and in the design and construction of animal feed plants using U.S. feed grains combined with locally-sourced ingredients.

Input supply companies, such as suppliers of seeds, fertilizer, agricultural chemicals, and packaging materials, may be interested in new export markets for U.S.-manufactured products, or they may be looking for locations for manufacturing facilities to supply local and regional markets. They can supply marketing expertise to help assess the viability of enterprises of this type in developing countries.

Equipment suppliers are another category of agribusiness company with which A.I.D. can work. The major manufacturers of food processing and packaging equipment are aggressive worldwide marketers; many also have manufacturing facilities abroad. Provided there is at least a long-term prospect of sales, such firms may be willing to provide technical sales personnel to help assess the cost and viability of new processing ventures in developing countries. In less desirable areas, it may be necessary to defray the costs of their services.

9.3.7 Recommendations for Agribusiness Trade and Investment Promotion

(1) A.I.D. should adopt an agency-wide policy of working closely with the U.S. agribusiness community in promoting trade and investment in developing countries, and should clarify and promulgate widely the "rules of engagement" which would govern such joint efforts.

(2) A.I.D. should enlist the support of the U.S. agribusiness community in development efforts through organization of a body such as a committee or council to coordinate with A.I.D. Both large firms with overseas operations and smaller firms with limited international

experience should be represented. Types of firms would include those specializing in food processing, commodity marketing, input supply, and equipment supply.

(3) **A.I.D. and the coordinating body should jointly work out procedures for the use of employees of these firms to participate in planning and implementation of T&I programs.** This should involve high-level commitments from the companies to provide personnel, working out of necessary administrative procedures, and arrangements for full or partial reimbursement for their services.

(4) **A.I.D. should adopt different approaches to agribusiness T&I promotion depending on the level of development of the country and on the prospects for trade and investment activities by U.S. firms.** Where an initial assessment reveals prospects for such activities on a purely commercial basis, USAID Missions abroad would limit their programs to relatively low-cost indirect promotion programs — those which concentrate on providing information and referral services to U.S. and local businessmen. For all other countries — those which would not otherwise be considered for trade or investment activities by agribusiness companies — programs would target for promotion specific enterprises which are identified as having potential despite the existence of other constraints.

(5) To assist in implementing these programs, **A.I.D./W and USAID Missions abroad should contract for the services of a consulting firm or university staffed with personnel having private sector experience and knowledge of and contacts with the U.S. agribusiness sector.** The contractor should be responsible for (1) classifying African countries on the basis of their suitability for T&I programs and selecting the most promising countries for concentrated and focused efforts, (2) carrying out diagnostic studies in those countries to identify marketing constraints and to make a preliminary identification of promising agribusiness sectors and enterprises, and (3) deciding on the most appropriate type of T&I program for each country.

(6) Where a **targeted or enterprise-specific approach** is indicated, the **A.I.D. contractor should — in cooperation with the U.S. agribusiness council recommended above — identify interested U.S. agribusiness firms specializing in the agro-industries concerned, and arrange for the use of personnel from those firms to assist in a project and investor search and screening process.** The output of this process should be profiles of potential investment projects matched with qualified local investors. During the same mission or a subsequent one, a contractor/ agribusiness company team should prepare feasibility analyses to serve as the basis for brokering of joint venture, co-venture, or product purchase arrangements between a local and a U.S. agribusiness firm. Salary and travel costs of these personnel should be partially or fully reimbursed by A.I.D., as indicated above. Involvement of these firms should continue through the feasibility study phase, still with A.I.D. support, and include both pre-investment and post-investment technical assistance as appropriate. The expectation is that the U.S. firm involved in the preliminary work would become the partner of the local assisted firm.

9.4 Towards an Analytical Agenda for Promoting Domestic Agribusiness Development and Intraregional Trade

The analytical agenda for examining constraints and opportunities facing small and medium-sized agribusiness firms in Sub-Saharan Africa is potentially vast, but we will propose that efforts be focused in a number of key areas, including:

- Continued tracking of the implementation and impacts of trade policy and regulatory reform and identification of remaining barriers to intraregional trade;
- In-depth analysis of constraints facing African agro-entrepreneurs, with an attempt at rank-ordering;
- Obtaining detailed, specific suggestions and recommendations from African agro-entrepreneurs regarding ways in which their efforts could be supported by African governments (and by extension, donor agencies);
- Financial requirements of small and medium-sized firms;
- Market information and market intelligence needs of these firms;
- Potential management and technical assistance needs of agro-entrepreneurs; and,
- Agro-industry and agribusiness organizational issues.

9.4.1 Removing Remaining Policy and Regulatory Barriers to Intraregional Trade

As noted in earlier, trade policy and regulatory reform is not a one-shot event but an ongoing process that requires careful monitoring and evaluation. A.I.D. can support largely World Bank-funded efforts by monitoring implementation of reform programs and their impact on private agribusiness firms. Furthermore, the Africa Bureau can strengthen reform efforts by insisting that changes in policies and regulations are widely disseminated, well-understood and properly interpreted by both public and private participants in the food system.

It is important to note that not all barriers to intraregional trade are of a trade policy and regulatory nature. Transport sector policies regarding cargo allocation among the trucking fleets of trading partners, maximum permissible per ton kilometer charges, load limits and penalties, user fees, and other trucking practices can also provide disincentives to intraregional trade. Restrictions or quotas on imports of processed agricultural commodities are also in place in some African countries.

9.4.2 Constraint Analysis

Papers by Marsden (African Entrepreneurs) and Herlehy (Uganda Non-Traditional Export Promotion Evaluation) provide excellent examples of the type of inquiry that is needed to improve ARTS/FARA's and USAID missions' understanding of constraints and opportunities facing African agro-entreprises. Most of the empirical base on African agricultural marketing and trade is concentrated on coarse grains and a few key traditional cash crops, such as peanuts, cotton, cocoa and coffee. The staple crops and traditional cash crops are of unquestioned importance to African economies, justifying the emphasis of the past 20 years. As African economies are undergoing structural adjustment and will become more open to and influenced by world agricultural markets, African countries and their agricultural sectors will presumably become more export-oriented. Given the mediocre price prospects for most traditional exports and limited trade opportunities for staple crops, an increasing number of African farmers and agro-entrepreneurs will produce, market and export non-traditional agricultural commodities. These commodities are typically highly labor- and management-intensive and will help to absorb increasing entrants to the African labor force over the next few decades. They are also high in value, yielding attractive returns to high-quality, attentive farm management and post-harvest handling practices. Finally, these non-traditional commodities present opportunities for agribusiness firms, both domestic and foreign, to add value through drying, processing, storage and packaging.

Given the emerging importance of non-traditional commodities and their potential as exports, yet the weak empirical base, we call for a **significant investment in building a strong empirical base**. Initially, most of the applied research should be conducted using structured informal methods. In-depth case studies will need to be conducted by skilled analysts, who are preferably in the private sector. Non-traditional exports require a high level of management expertise, an ability to assemble, interpret and use relevant information in a short time frame, and flexibility. There should be ample opportunities for both expatriate consultants (with analytical skills in agricultural marketing and trade, as well as product-specific expertise) and local, private sector analysts to build the knowledge base. Opportunities to conduct longer-term, data-intensive studies using local analysts in trade promotion organizations (TPOs), other government agencies, and universities or other research institutes will depend in large part on the findings of initial constraints' analyses, as well as the need for intensive monitoring and evaluation of action programs.

9.4.3 Learning the Agro-Entrepreneurs' Perspective

A second key emphasis of the constraints' studies should be to elicit agro-entrepreneurs' candid views on specific government policies, regulations and support programs, and to offer frank suggestions as to how these could be improved. **In order to ensure such candid responses, government, TPO or parastatal analysts should explicitly be excluded from this process.** Agro-entrepreneurs will be more inclined to provide accurate and valid information to analysts and consultants who are not associated with African governments. Using local private consultants and expatriate analysts to do these studies is especially prudent in light of the

often adversarial relations between African governments and agro-entrepreneurs. Furthermore, government analysts typically have little or no knowledge of or experience in examining non-traditional exports. And for the reasons discussed in section 9.4.2, any effort to develop this expertise in government agencies would be misguided.

Agro-entrepreneurs should be asked what African governments or donor agencies can do to assist them. From their perspective, what are the most binding constraints? In addition, what are their views on agribusiness industry, export or commodity-specific associations? If they exist in the country under investigation, what services do they offer and are these organizations effective? How could they be strengthened? If they do not exist in the country under investigation, how can agro-entrepreneurs be assisted to create viable associations? Or if formal associations are not desired, in what other ways could entrepreneurs' "voice" (ability to articulate concerns and lobby for change) be strengthened?

9.4.4 Financial Requirements of Agribusiness Firms

Marsden asserts that access to formal credit is the key factor constraining the emergence of expanded private African entrepreneurs and that donors should provide significant funding to existing formal financial intermediaries in African countries to on-lend to entrepreneurs. Ohio State University researchers caution that formal credit programs typically fail to reach target groups and users, are poorly managed and inherently costly and difficult to manage effectively, and often face low repayment rates and decapitalization over time. OSU insists that savings or deposits must be mobilized to create effective lending organizations; simply loaning money is only half of the equation and destined to fail. OSU advocates examining the potential to expand agricultural sector loans through agribusiness firms, reinforcing informal financial intermediation that is already underway in many African countries.

There is clearly scope for further applied research and experimentation with formal financial instruments that target agro-entrepreneurs. A number of key questions to address are as follows:

To what extent is credit the key constraining factor in agribusiness development in Africa?

- What are agro-entrepreneurs' common sources and uses of funds? How deep are formal financial markets and resources for African agribusinesses?

- What are typical terms and conditions placed on loans, whether formal or informal? What is the performance of different categories of loan recipients in repayment? What business improvements can be documented as resulting from the use of credit funds?

- To what extent is it plausible or feasible to use agribusiness firms as formal wholesale financial intermediaries who on-lend to farmers, assemblers, distributors? Are they themselves interested in expanded on-lending? Under what conditions is this activity

likely to flourish? What pitfalls can be anticipated and how can designers of on-lending programs avoid them?

In summarizing "Research Results on Financial Markets and Agribusiness Development in Africa," Meyer et al. (1992) distinguish between short- and long-term research needs. They argue that "the short-term challenge is to identify how stronger financial relationships can be developed and strengthened with agribusinesses and the private sector so that informal financial services can be quickly expanded." They define the major analytical tasks as being the following:

- Identifying, classifying and characterizing the operations of current or nascent agribusinesses in Sub-Saharan Africa.

- Analyzing the financial structure of agribusiness firms, sources, characteristics and constraints of formal financial services used by these firms, and specific measures to relax their constrained access to these services.

- Examining informal financial services that agribusinesses provide to different agents and clients, characterizing these agents and clients, and both financial and nonfinancial constraints to expanding informal lending to their clients.

Meyer et al. define the long-term research agenda as analyzing factors underlying problems and failures encountered in formal finance in Sub-Saharan Africa and identifying policy changes or innovations that will improve performance.

9.4.5 Market Information and Intelligence

Analysts interested in agribusiness development and trade and investment promotion agree that market information constrains the activities of African agro-entrepreneurs. They do not always elaborate on the specific types of market information and market intelligence required. We feel strongly that the perspective and opinions of agro-entrepreneurs need to be factored into the design or upgrading of market information systems and the specifying of market intelligence needs. A number of key issues require further investigation, including the following:

- What types of domestic market information are most valued by agro-entrepreneurs? How would they like to see such information presented, interpreted and disseminated?

- How high a priority do they place on expanded regional market information for intraregional trade? How thorough should grade/variety and market coverage be?

- What are agro-entrepreneurs' current sources of foreign market information and market intelligence? How did they learn about these sources? How much do they pay for them? How frequent, accurate, reliable and timely is such information? Do they have informal sources of information by which they can cross-check formal market intelligence?

- In all cases, what is the private agribusiness sector willingness to pay for this information? How much would they be willing to pay for what specific types of information? What do they currently pay, directly (i.e. through telephone calls or subscriptions to market international market information services) or indirectly (to persuade relatives, truck drivers, and traders to provide accurate, timely information)?

- In all cases, what are the desired dissemination media and formats? In cases where agro-entrepreneurs cannot articulate this well, perhaps analysts could show them or ask them to listen to several illustrative formats in order to get feedback.

- In cases where such information is not currently obtained and used by agro-entrepreneurs, what kinds of training or guidance are needed to enable entrepreneurs to understand and be able to use such information to improve their business activities?

As noted earlier, a possible role for ARTS/FARA is to provide conceptual input into the design of regional trade and price data bases in several regional groupings of countries in Africa. such as the following:

- **East Africa:** Kenya, Tanzania, Uganda, Rwanda

- **West Africa I:** Senegal, Gambia, Guinea, Mali, Côte d'Ivoire, Burkina Faso, Ghana

- **West Africa II:** Nigeria, Niger, Chad, Cameroon, Benin

- **Southern Africa (SADCC):** Zimbabwe, Botswana, Zambia, Mozambique, Malawi, Namibia, South Africa, Lesotho, Swaziland

Private participants in intraregional trade need reliable, up-to-date information about market conditions in key terminal markets in the regions where they operate. A livestock exporter based in Burkina Faso, for example, is not only interested in market conditions and prices in important assembly markets in Burkina Faso but also in redistribution and terminal markets such as Ouagadougou (the main terminal market in Burkina) and in Côte d'Ivoire (Bouaké, Abidjan). Regional organizations such as CILSS, ECOWAS, CEAO, CEBV or SADCC could play instrumental roles in developing usable, streamlined regional market information systems, where the number of markets and commodities covered would be limited. In interviewing traders about their market information needs, an interesting question to pose would be whether traders value improved communications (especially telephone service within regions in Africa) more than publicly-managed regional market information systems.

9.4.6 Management and Technical Assistance Needs of Agro-entrepreneurs

In many African countries, donors address these needs initially by providing training in general management or financial management. This approach assumes that the client group is typically illiterate or semi-literate, and that these entrepreneurs must master basic accounting,

record-keeping and management skills in the short term. Such an approach may be useful for traders in subsectors that tend to be dominated by illiterate operators. As more and more exporters of non-traditional commodities emerge, this is unlikely to be the case. Their needs are more likely to be far more specific to the marketing management requirements of specific commodities or related commodity groups. By marketing management, we refer to strategies and procedures regarding the following:

- sourcing of raw material;
- pricing, grading, quality control, and packaging of products;
- obtaining, interpreting and using market information and intelligence in buying, selling, storage and processing decisions;
- contacting and negotiating contracts with buyers; and,
- meeting buyer requirements.

9.4.7 Small and Medium-Scale Agro-enterprise Promotional Issues

More applied research, analysis, and innovative institutional design is needed in the area of agribusiness organization and representation. A first task is to identify those vehicles that have actually been tested in working with agribusinesses in Africa. They include government (typically donor) funded trade and investment promotion agencies and centers, agribusiness support centers, and projects to strengthen industry and (commodity group) trade associations. Keesing and Singer's critique of TPOs is damning and quite convincing. In the same collection of essays with two papers by Keesing and Singer, Paul Hogan, former director of Ireland's very successful trade promotion agency, argues that donors should not "throw out the baby with the bath water," and that TPOs can be strengthened in many developing countries to provide valuable services to exporters and prospective exporters.[31] Hogan argues for revitalized and reformed TPOs that have the following common set of characteristics:

- autonomy in operations;
- the confidence of both government and exporters;
- relevant services keyed to real needs;
- overseas representation in the country's major markets;
- experienced and well-trained staff; and,
- sufficient finance to do the job well.

Hogan eloquently advocates a balanced short and long-term perspective . . .

> "Development assistance in export promotion should have a short-term and a long-term focus. In the short term, projects should aim to help existing exporters

[31] Hogan's essay in The Role of Support Services in Expanding Manufactured Exports in Developing Countries is entitled "Some Institutional Aspects of Export Promotion in Developing Countries."

maximize their overseas sales by providing relevant services that generate immediate results. In the long term, efforts should be directed toward producing new exportable products and services, and developing self-sustaining capacities. Central to this is the establishment of effective export development organizations." (p. 54)

An important item on the agribusiness analytical agenda is to monitor and evaluate the experience of African TPOs and agribusiness promotion and support agencies. Although many TPOs do not concentrate exclusively on agribusiness exports, many exports from African countries are indeed agriculturally based. Hence, valuable lessons can be learned from the experience of organizations created in the 1970s and 1980s with A.I.D., World Bank, International Trade Centre, EC and other support. A.I.D.'s more recent experience in creating agribusiness support centers (in Chad under the Agribusiness Support and Technology Transfer Project) and non-traditional export promotion organizations (such as EPADU, the Export Policy Analysis and Development Unit in Uganda) needs to be rigorously scrutinized as potential models for other A.I.D. agribusiness projects and programs.

Another institutional alternative for stimulating agribusiness development is the concept of **small business incubators**, developed first in Pennsylvania and now widely used in urban areas facing high unemployment. **Incubators in the U.S. presuppose a number of conditions that may or may not be present in African countries.** Incubators are designed to be a temporary hatching place for entrepreneurs with good, marketable ideas who need a subsidized place of business, general management assistance, assistance in producing prototypes, and time/moral support to establish an adequate financial base. Once products are developed and revenues reach a certain level, entrepreneurs "graduate" from the incubators and are asked to set up business elsewhere. Prolonged residence at an incubator is discouraged; underachievers are asked to leave as well after a certain period (not always well-defined).

Incubators could be developed in African countries to support the initial efforts of exporters of agribusiness products, particularly non-traditional commodities. Agro-entrepreneurs could share the cost of a fixed place of business, cold storage, perhaps certain types of drying or processing equipment, warehousing, subscriptions to foreign market information and intelligence, and international telephone, fax, and telex links. Qualified local or expatriate technical assistance could provide general management, financial management, and marketing management support and training through a combination of long- and short-term technical assistance.

The incubator would fall far short of typical government TPOs, with their expansive surroundings and large staffs of civil servants. Hence, A.I.D. could avoid falling into the trap of providing unlimited subsidies to an organization which would likely not be lean and mean, have the necessary private enterprise orientation, or see its ultimate mandate as one in which the organization "withers away" over time. An incubator could be staffed with non-governmental personnel having some private sector experience or at least some experience in (privately) serving the private sector. Office space would be limited; probably half to three-quarters of the

space would be dedicated to necessary equipment and functions in support of export enterprises (warehouse space, cold storage, drying rooms and equipment, some processing units?). Training services and short courses could be provided off-site, using borrowed or rented space. Clearly, the incubator to promote (non-traditional) agribusiness exports would need to be 100 percent service-oriented rather than turf or control-oriented (as a typical TPO or governmental agency). The incubator management should have absolutely no regulatory role; it could play an advocacy and trade association-facilitating role, however. It would be fascinating to apply an essentially U.S.-devised institutional concept to an African private enterprise environment.

9.4.8 Small and Medium-Scale Agro-enterprise Organizational Issues

As a possible complement to (or substitute for) incubators, conventional industry/commodity associations need to be explored. Given the ineffectiveness of many African Chambers of Commerce, one wonders about the extent to which these western transplants match the African institutional and political environment? The legacy of many supposed private trade associations in African countries has been depressing in recent years. Many of these organizations or syndicates are financed directly by taxation applied to firms which are not really "voluntary" members or indirectly through government subsidies. In most cases, these organizations would collapse without continued government support. In recognition of this, the World Bank is beginning to insist on greater accountability. The Bank funded an in-depth review of Mali's Chamber of Commerce in 1991.

One reason why general business associations may be ineffective in Africa is that they provide little in the way of specific, industry or commodity-specific assistance. They also tend to be dominated by urban entrepreneurs rather than agro-entrepreneurs. The knowledge base on more specialized industry and trade associations appears to be thin in Sub-Saharan Africa. In examining horticultural exports in Senegal, the AMIS Project found that two horticultural export associations compete for members and scarce opportunities to interact with Senegalese policy-makers and regulators. Neither organization was terribly effectual, although they did sit on an interagency air freight committee, which periodically met to address problems of scarce and unpredictable air shipping capacity out of Dakar.

Clearly, ARTS/FARA has an opportunity to examine experience across African countries, types of agro-industry, and commodity subsystems with formal trade associations. In addition to documenting what these associations do and the nature of their membership, the following questions should be asked:

- Are prospective members willing to pay dues? Do current members pay dues? If so, what proportion of association operating costs are covered by membership dues?

- What services have been provided to date and how effectively have they been provided? What do existing members desire as additional or improved services?

- What factors underlie non-membership? Several important firms which are non-members should be contacted to ascertain why they do not participate.

- Can associations lobby effectively in (increasingly democratic) African countries? What assistance, if any, do they need (from donors) to do this most effectively?

- Are associations currently providing market information or foreign market intelligence to members? If so, do they charge for this service? Does the fee cover the cost of providing service? How useful do members find the information provided? Do they use it in their trading and exporting decisions? Has market intelligence helped them target new markets or new commodities (in old or new markets)?

- Can associations assist in screening, testing and promoting dissemination of technology? If so, how should they be strengthened to do this?

- Can associations be made self-sustaining; i.e., does their scale of administration match their income, and are they flexible enough in managing their resources and services so that overhead costs do not overextend beyond their ability to be self-supporting?

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ANNEX A

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN CAMEROON

1. Introduction

Cameroon is one of the few middle-income countries in Sub-Saharan Africa (SSA). It has enormous potential for growth because of bountiful natural resources and human capital. The country is a microcosm of SSA in many respects. Straddling the main ecological zones of SSA, its terrain ranges from the Sahelian semi-arid steppes, through the cool and humid highlands, to the equatorial forest zones and mangrove coastal areas. Within its borders are more than 200 ethnic groups and 14 main languages. It has a unique triple colonial heritage (German, English, and French). Cameroon is officially bilingual with distinct francophone and anglophone political and economic traditions in its two linguistic regions. USAID/Cameroon is also unique among A.I.D. missions for the emphasis on analysis of institutional arrangements that guides its agricultural and agribusiness projects and programs.

Cameroon was selected as one of the countries to be examined for this study because of:

- the breadth and scope of agribusiness-related projects and programs in the Mission's portfolio,
- accumulated Mission experience in this field going back more than five years,
- the range of producing areas and crop varieties, extending from tropical to Sahelian, and
- the Mission's special experience with institutional analysis as applied to agribusiness activities.

This annex reviews USAID/Cameroon's experience in agricultural marketing and agribusiness projects and programs during the last decade. These programs and projects include the following:

- The Fertilizer Sub-Sector Reform Program (FSSRP),
- The Program of Reform of Agricultural Marketing (PRAMS I),
- The Program for Policy Reform in the Export Processing Sector (PREPS)
- The North Cameroon Seed Multiplication Project (NCSMP)

2. Key Indicators of Economic Performance

Cameroon is a middle-income country with rich natural resources, relatively high education rate, and strong private sector entrepreneurship. Although prosperity from the late 1970s oil boom led to greater urbanization in Cameroon during the 1980s (40% of the popultaion was urban in 1989), the country's economy has largely remained agrarian. The Government of the Republic of Cameroon (GRC) has given priority to the development of the agricultural sector, which is considered vital to the country. The main food crops, grown on small farms, are plantains, cocoyams, cassava, yams, corn, millet and sorghum. Livestock is also an important resource. The major cash and export crops are cocoa, coffee, cotton, and bananas. The country also exports oil and timber. Cameroon's remarkable economic growth in the 1980s came to a halt in 1987, when low world prices for its major export commodities (oil, coffee, and cocoa) compounded its poor economic policies, which have resulted in low efficiency, limited savings, and little job creation. Cameroon is no longer ranked among upper-middle income countries, a privilege it shared recently with only Gabon in SSA. The country is implementing an Adjustment Program to reverse the severe crisis affecting its economy. Key indicators include:

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	8.7	11.7	
Annual Population Growth Rate			3.0%
Urban Population Growth Rate			5.1%
Urban Population/Total Pop	34.7%	41%	
Per Capita GNP	$760	$ 960	
Average Annual Growth in GDP			2.3%
Inflation Rate			5.6%
Debt Service (% of Exports)	15.2%	21.5%	
Agricultural Contribution to GDP	32%	27%	

Source: World Development Report, 1982 and 1992
Note: The third column shows the compound growth rate for the period 1980-1990.

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3. Recent Economic Reforms Affecting the Agricultural Sector

Agricultural marketing and agribusiness programs in Cameroon should be viewed in the context of the economic crisis that the country has faced since 1986. Declining world prices of Cameroon's major exports (oil, coffee, and cocoa) and the overvaluation of the CFA relative to the US dollar and other local currencies (e.g. the Nigerian naira) have turned the terms of trade against Cameroon. These external factors, however, have served only to exacerbate major structural weaknesses in the economy: uncompetitive interest rates,[1] a bloated and inefficient public sector, excessive business taxation, and an unfavorable regulatory environment and investment climate.

Cameroon engaged in a financial stabilization program with the International Monetary Fund (IMF) in 1988 and the following year in a Structural Adjustment Program (SAP) with the World Bank. Since the adjustment program has thus far been denied the option of devaluing the CFA franc, the strategy seeks an internal adjustment with emphasis on increased competition, efficiency, and reduced costs and prices. The SAP covers all sectors of the economy and includes the following: (1) reduced growth of public expenditures; (2) strengthened, broadened revenue collection; (3) civil service reform; (4) liberalization of the trade regime; (5) liquidation, privatization, and restructuring of the parastatal sector; and (6) a restructured commercial banking system.

Successes achieved so far include a more open trade regime with phased elimination of quantitative restrictions and all import licensing requirements; elimination of most price controls; a simplified system of investment approval in the context of a new investment code and the Free Zone Regime; liberalization of fertilizer imports; rehabilitation of the banking sector; shrinking of the public enterprise sector; and work underway to overhaul the company, commercial, and labor codes. Perhaps even more significant than these changes was the elimination of the mammoth National Produce Marketing Board (NPMB), which had accumulated some CFA 58 billion ($20 million at 290 CFA/$) of arrears to exporters, commercial banks, and cooperatives.

4. Review of Mission Agribusiness/Agricultural Marketing Programs and Projects

This section describes four Mission programs and projects dealing with agricultural marketing/agribusiness and broad economic reforms.

[1] Low formal financial sector interest rates are negative in real terms.

4.1 Fertilizer Sub-Sector Reform Program

The Fertilizer Subsector Reform Program (FSSRP) is a key element in USAID/Cameroon's private sector portfolio. The AMIS Project has conducted annual assessments of the FSSRP since its inception (see Abbott, 1989, 1990, 1991a, 1991b).

4.1.1 Background

In September 1987, USAID/Cameroon and the Government of the Republic of Cameroon (GRC) signed an agreement under which the Government would completely transfer fertilizer procurement and distribution to the private sector over a five-year period. Studies had shown that the old system, involving some five government agencies, was cumbersome and inefficient. Moreover, the GRC had recognized — as the economic crisis worsened and the Government ran huge deficits — that it could no longer afford to subsidize fertilizer sales. Under the FSSRP, import and distribution of fertilizer were open to any private firm or cooperative with prior experience in handling fertilizer. The objective was to create a system that was "competitive, sustainable, and subsidy-free." Subsidies were to be phased out over a five-year period, and would be supplemented by an A.I.D.-funded loan program to facilitate entry of private firms into the program. The loan program had the additional objective of requiring commercial bank participation in the process, thus helping to integrate fertilizer marketing companies into Cameroon's private financial system. It was hoped that maximum participation from the private sector could be attracted so that fertilizer users would benefit from active competition at each step in the marketing process.

4.1.2 Performance Indicators

The Mission's position is that a private sector program of this type requires flexibility to adapt to changing market conditions, and that any indicators devised at the beginning of the five-year program would not long remain valid. Instead, the Mission relied primarily on the annual assessments prepared by AMIS and the annual seminar/workshop at which private sector participants and government officials reviewed events of the preceding year and made adjustments to the program as necessary. We understand that a Log Frame was prepared *ex post facto*, but we were not able to obtain a copy during our field visit.

As part of the annual assessments, AMIS analysis of program performance was based on four indicators which proved useful in measuring performance of the program. Impact of the program as measured by these indicators is discussed below.

4.1.3 Impact of the Activity

Volume of Fertilizer Imported/Response to Market Demand. During the first two years, 1988 and 1989, the new system succeeded in importing the same volume of fertilizer as in 1987 — approximately 64,000 tons of five types — despite the difficulties of converting to a new system.

By 1989, the severe economic problems facing Cameroon had begun to affect the program. Tight credit limited access to commercial bank financing of importation and distribution of fertilizer. Farmers' purchasing power was greatly reduced by delayed payments to farmers for coffee, a poorly managed government marketing board strapped for cash, and later the halving of official producer prices for coffee. As a result, fertilizer consumption in 1989 was roughly two-thirds of the previous year's level and importers were left with substantial inventories. Fertilizer importers responded rationally to this situation and reduced imports to only 22,000 tons in 1990. By year end, inventories had been reduced to manageable levels. In 1991, imports and consumption recovered under the influence of crop diversification (away from coffee and toward vegetables). Approximately 40,000 tons were imported. These variations in import and consumption levels reflected variations in demand, and thus it can be concluded that — unlike the previous state-run system — demand signals were being transmitted through the system.

Number of Private Firms Participating. During the first two years of the program, most imports were handled by two newly created firms. Though there were no barriers to entry to Cameroonians, both firms were established by non-Cameroonians specifically to take advantage of the liberalization scheme. Two established Cameroonian firms which had previously imported fertilizer participated in the 1988 program, but have not imported since then. In 1991, a total of five importers participated, including four Cameroonian-owned firms which had not previously participated.

Distributors in 1988 were generally the same coffee cooperatives which imported under the old program. More recently, private distributors other than cooperatives have begun to participate in the program; these range from small farm supply firms to individuals who truck fertilizer to the interior for retail sale directly to farmers. In 1991/92, two firms opened retail stores in consuming areas and expect to sell fertilizer imported under the FSSRP.

Two commercial banks handled all fertilizer import transactions in the first two years. During the 1991/92 season this number had increased to five as new importers established relationships with several new and restructured commercial banks in Cameroon.

Delivery Time. Under free market conditions, the privatized system proved much more efficient than the government-controlled scheme. The time from placement of orders by distributors to reception of fertilizer by users was reduced from a period of twelve to eighteen months under the government scheme to a four to six month period under the privatized system.

Fertilizer Costs and Prices. The landed cost of fertilizer at Douala in 1988 was more than 40 percent lower than that of the previous year, a remarkable accomplishment considering that world market prices were practically unchanged. There are several possible explanations for this. The government system may not have negotiated purchase contracts at the most advantageous prices, or it may have involved too many middlemen or brokers charging commissions, or it may have provided opportunities for rent-seeking by government officials, or all of the above. The cost of distribution from the port to point of sale was also reduced (by

about 17 percent) in the first year of the new program, as competition for transport contracts by trucking companies produced lower prices than the old government contracting system. The farmer has benefitted from this competitive situation. Whereas unit subsidies were reduced by over 75 percent between 1987 and 1990, farmers are paying only about 30 percent more for their fertilizer.

4.1.4 Information Gaps and Needs

The FSSRP would have benefitted from more information about farmers' attitudes toward the costs and perception of net benefits of fertilizer use. The program generated some information of this kind in the third year; had it been available earlier, predictions on the effect of lower coffee prices on fertilizer consumption, for example, might have been possible.

Likewise, data on fertilizer response would have been useful in formulating recommendations on application rates for coffee and various food crops. When the need for this data became obvious in the second year of the program, an AMIS study found that available data were inconsistent and scattered and could not be used.

During the planning stage of the program, USAID/Cameroon tried to learn as much as it could about private sector distributors of agricultural inputs in Cameroon and their potential reaction to the FSSRP. However, the Mission, like most USAID missions, had limited contacts in the private sector, and it was unable to accurately predict its response to the program.

4.1.5 Views of Participants

The annual AMIS assessments of the FSSRP produced a rich supply of views on the program from participants, including commercial banks, importers, and distributors.

There was general satisfaction with the program among participants. Distributors, such as coffee cooperatives, especially welcomed the opportunity to exert direct control over the purchase and sale of fertilizer to farmer members instead of being subjected to the vagaries of the old government procurement system. This satisfaction was to some extent counterbalanced by rising prices, as subsidies were progressively removed. However, a much more cost effective import and distribution system in private hands considerably moderated these price increases.

As with any development project or program, there were problems. As expressed by participants, these problems may be summarized as follows:

- **Small fertilizer importers and distributors**, especially new firms, **lacked access to commercial bank credit.** Although a credit program was made a part of the FSSRP, commercial banks reacted to the extremely bad economic conditions in Cameroon by limiting access to these credits (and to credit generally) to firms offering substantial collateral, much of it in the form of cash deposits.

- **Many participants felt that the complexities of the loan and subsidy system were not adequately explained to them.** This applied even to some commercial bankers. It appeared that the information bulletin issued annually was insufficient in this regard. Attempting to deal with this, one seminar was organized in the second year of the program, and another was held at the annual review session at the end of the fourth year.

- **Some operators of small trading firms** wishing to participate in the program **experienced difficulty in applying for bank loans.** They had little or no experience with banks and did not know how to prepare a business plan or loan application.

- **Entrepreneurs planning to install fertilizer mixing and blending plants or storage facilities complained that no medium-term credit was available** in Cameroon, noting that the FSSRP provided only short-term credit. This problem was dealt with at the fourth annual review by converting part of the available A.I.D. loan funds into medium-term.

- **Fertilizer distributors** — those purchasing fertilizer from importing firms — **found that they had insufficient information on the fertilizer market in Cameroon.** They wanted access to information on the qualifications and past experience of importers, volumes currently being imported by type, current retail prices being practised in different parts of Cameroon, and world market prices and price trends. On another level, they wanted more information about fertilizer consumption by region and by crop to help plan marketing efforts.

- Distributors noted that **fertilizer users**, mainly coffee and vegetable farmers, **lacked knowledge about the proper application of fertilizer.**

4.1.6 Lessons Learned

Lessons drawn from experience with the FSSRP as it enters its fifth year include the following:

- The FSSRP was implemented at a time when signs of an impending economic crisis were such that the government knew it could no longer sustain the cost of heavily subsidizing fertilizer. Under other conditions it might have been impossible to get the agreement of responsible officials who had a "stake" in the old system. The lesson here would seem to be that **the time to press for market liberalization measures is when governments are in dire straits and have few alternatives.**

- While an economic crisis and declining output prices (for coffee) would not appear to be the best time to remove subsidies on a key input such as fertilizer, this intervention proved to be fortuitous. Had fertilizer marketing not been privatized and subsidies progressively reduced, continued reliance on the government program would have been

disastrous. The lack of funds for subsidies, and the absence of alternative import channels, would have led to the cessation of imports. This in fact is just what has happened in the case of agricultural chemicals.

- The history of the program demonstrates the **difficulties** which **can arise when an input marketing system is privatized but the "output" marketing system** — in this case coffee — **is not**. Free market forces operating on fertilizer marketing were thwarted by the Government's continuing control of coffee marketing. Uncertainty about when they would be paid for coffee and about future government policies toward the coffee sector restrained farmer purchases of fertilizer and created financial difficulties for importers.

- **The flexibility of commercial banks, importers, and distributors to adjust to changing economic conditions demonstrated the strengths inherent in the private sector.** Market forces induced importers to adjust import levels to match apparent demand, and fertilizer buyers benefitted from price competition.

- **Expectations of private investment in handling and distribution facilities (mixing and bagging plants, up-country warehouses) were too optimistic**, in view of the relatively small market for subsidized fertilizer of about 64,000 tons annually. Had economic conditions been more favorable and coffee prices remained high, the market for fertilizer probably would have expanded and such investments might well have taken place. The implication here for planners is that forecasts of fertilizer consumption and prices need to take into account the risk of declining prices for crops that use fertilizer.

- As the program unfolded, it became apparent that **small firms** who were interested in importing or distributing fertilizer for the first time **had insufficient knowledge of the FSSRP program** features and procedures and little or no exposure to commercial bank financing. While several meetings were held to explain the FSSRP to importers, the program could have benefitted from training programs specifically designed to instruct small businessmen in such matters as making a market study and applying for a bank loan.

- **The FSSRP provided for regular monitoring and review of the program, which has contributed greatly to its progress. All private sector participants** in the program **have the opportunity once a year** at the end of the season to hear the results of an assessment prepared by the AMIS Project, and to **discuss openly and frankly with supervising government officials any problems they have experienced and make suggestions for improvements.** This feature of the program should be a part of any privatization scheme considered elsewhere.

4.2 The Program for Policy Reform in the Agricultural Marketing Sector (PRAMS)

4.2.1 Background

PRAMS I is a $23.5 million effort to liberalize and privatize arabica coffee marketing in the North West Province. It has two principal components: (1) policy reform at the government level, and (2) direct assistance to the North West Cooperative Association (NWCA). The first phase of the project — short-term technical assistance during the 1990/91 coffee marketing campaign — was implemented by Associates in Rural Development (ARD) with the assistance of the University of Indiana, Workshop in Political Theory and Policy Analysis. Long-term technical assistance in restructuring NWCA is being provided by the International Science and Technology Institute (ISTI) under a contract with USAID/Cameroon.

Policy reform, a condition precedent for assistance to the NWCA, consisted of liberalization of the operating environment for cooperatives (making them independent of government control and allowing them to associate in any form with other cooperatives), along with liberalization of external and internal trade in arabica coffee over two years from start of project implementation. The latter measures include the introduction of market prices, the elimination of the parastatal producer price stabilization, simplification of the export tax structure, replacement of administered quality control with a market-based system, payment of arrears owed to NCWA by the defunct parastatal National Produce Marketing Board (NPMB), and design of an improved system for allocating quotas should the International Coffee Agreement be reinstated.

Planning is also underway for PRAMS II, which is aimed at liberalizing and privatizing trade in cocoa and robusta coffee and achieving higher producer prices. Reforms needed include price decontrols, financial autonomy of market participants, and elimination of direct government involvement in setting producer prices and establishing or managing price stabilization funds.

4.2.2 Performance Indicators

The Mission prepared a Log Frame for the PRAMS Project, but a copy was not available at the time this report was being prepared. The Mission plans to schedule quarterly reviews conducted jointly with all participants, similar to what was done with the FSSRP.

4.2.3 Impact of Activity

It is too early to measure the impact of this activity. Some policy reform measures have been implemented, but they tend to be *ad hoc* in nature. The government has still not acted on the cooperative law, which would formalize most of the changes. The long-term technical assistance team only arrived in Cameroon in April 1992 and had not yet taken up their duties at the time of the field visit. Views on the planning and scope of the project by the principal participant, NWCA, appear in section 5 below.

4.2.4 Views of Participants

Dr. Ghogomu Tapisi is General Manager of the North West Cooperative Association, the beneficiary of the PRAMS Project. He was interviewed in Bamenda to get his views on the PRAMS program. Although the long-term technical assistance part of the program had not yet begun, the effect of some policy changes promoted by PRAMS (and other agencies such as the World Bank) were already apparent.

Perception of change since beginning of the program. The cooperative is now fully responsible for marketing of its coffee, including contracting with buyers, transportation to the port, fumigation, and all port and shipping arrangements. These functions were formerly handled by the National Produce Marketing Board (NPMB), which also fixed the marketing margin accruing to NWCA. However, the government still establishes a minimum price for coffee (FCFA 250/kg.) and in view of current low world market prices, NWCA is losing money on each shipment (an estimated total of FCFA 460 million [$1.7 million]) in 1992. Efforts are underway to reduce marketing costs from about FCFA 300/kg. to FCFA 200/kg. With technical assistance provided under PRAMS, coffee quality should be improved, bringing a higher sales price. NWCA management doubts that even the combined effect of these two changes will be enough to make coffee marketing profitable.

How well government is implementing policy changes. This is a mixed bag. While the provincial office of COOPMUT (government agency charged with overseeing cooperatives) seems to accept their loss of authority over NWCA, the National Produce Marketing Board has been "hostile". Only part of the revolving local currency account to provide NWCA with operating funds has so far been paid in by the government. NWCA management is of the opinion this is because former NPMB officials are now in responsible jobs in other ministries and in a position to block these actions. The same reason is cited for the long delay in disposal of NPMB coffee processing equipment, which NWCA would like to acquire.

New difficulties which may have arisen as result of changes. While the program placed heavy emphasis on getting money in the hands of farmers, Dr. Ghogomu feels that insufficient attention was paid to the effect of the changes on the financial status of NWCA. For example, the first input of local currency went entirely to pre-finance farmers for next year's coffee crop and none went to help NWCA reduce its debt. The cooperative has difficulty borrowing from commercial banks since there is no recent audit of its books (though an audit of the 1991 fiscal year was underway in April 1992). FCFA 80 million ($300,000) are needed immediately for new processing equipment and spare parts.

What should the government do to improve the business climate? How can A.I.D. be most effective in helping the government? As far as cooperatives are concerned the government needs to speed up action on the new cooperative law, which formalizes liberalization measures. The labor code should also be changed to liberalize regulations on hiring and firing of employees. Port taxes should also be reduced in proportion to declining world market prices for export commodities to avoid making these commodities even less competitive. As for A.I.D.

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actions, Dr. Ghogomu feels that A.I.D. has allowed the government too much flexibility in meeting Conditions Precedent (CPs). An example was the delay in paying in local currency counterpart funds to enable financing of the coffee crop, which arrived only in May instead of several months earlier when they were most needed.

Goals of the enterprise. Improving both quality and quantity of coffee delivered by memebers is the overall goal of NWCA. The cooperative would like to be financially liquid enough to deal on a cash basis with the farmers. In this way the cooperative could regain the confidence of the farmer and compete effectively with small traders who buy coffee for cash. Reliable payments would also encourage farmers to better maintain their coffee trees and this would improve quality. Diversification is another goal of NWCA, given low coffee prices. They would like to assist farmer members to diversify. Green beans would be an example of a commercial crop which NWCA could help its members market and export.

What information is needed to help the organization make business decisions?
NWCA needs access to information to help it access export markets more effectively. For example, it would like names and addresses of brokers and traders in Europe, more information on quality requirements of European coffee roasters, direct access to current coffee prices on a timely basis, and more information on shipping costs. Dr. Ghogomu would also like to know more about coffee production costs in other countries to better understand why Cameroon has difficulty competing. He is well aware that the overvalued CFA franc leads to high labor costs in CFA zone countries, while at the same time making imported inputs such as fertilizer cheaper.

4.2.5 Lessons Learned

Although the program is in the early stages, it appears from the comments made by the NWCA General Manager that more attention should have been paid to providing NWCA with access to information on coffee export marketing. On projects where A.I.D. works through an institution such as a cooperative, attention has to be paid to the financial viability of the institution, as well as the welfare of the farmer members. A.I.D. also needs to stand firm on fulfillment of CPs in programs such as this, though it is realized that political conditions have to be taken into account.

4.3 Program for Policy Reform in the Export Processing Sector (PREPS)

4.3.1 Background

The recently launched program for Policy Reform in the Export Processing Sector (PREPS) is designed to promote investment, employment, and production in export industries by establishing Industrial Free Zones throughout Cameroon. Another goal of the program is greater diversification into non-traditional and higher value-added export processing activities. These activities are intended to help reverse the declining trend in exports which began in 1986

and which has accelerated since economic conditions began to worsen in 1988/89. Program and project grant agreements for the PREPS Program, signed in August 1990, call for total A.I.D. expenditures of $6.16 million over a five-year period.

Laying the groundwork for the program was the GRC's enactment of the Cameroon Free Zone Ordinance creating an Industrial Free Zone Regime. The ordinance authorizes creation of a private non-profit organization known as the National Office for Industrial-Free Zones (NOIFZ) to oversee the management and enforcement of the regime.[2] The NOIFZ is to create a simplified and transparent process by which entrepreneurs can obtain the benefits of the regime in less than 30 days. NOIFZ issues approvals for Free Zone investments, and all licenses and permits (including labor permits and residency visas for expatriate workers) required to operate export-oriented businesses in the zones. Its Board of Directors is made up of six private sector and three public sector representatives, each having one vote.

The PREPS program component provides dollar cash grants to the GRC of $3.1 million, the CFA franc equivalent of which will cover start-up and operating costs of NOIFZ for the five-year program period, including salaries for a Cameroonian professional staff of four and a support staff of five, office equipment, vehicles, supplies, and office rental. An Investment Promotion Center (IPC) will also be established as a private non-profit organization with a predominantly private sector board of directors. A.I.D. support is provided for only the first two years of operation, after which it is expected that multi-donor support will be obtained. The technical assistance component provides help in such areas as assessment of the viability of the free zones, economic and market analysis, financial analysis, design of alternative ownership and management structures, and facilities provision. Training will also be provided to Ministry of Finance officials, transportation officials, customs agents, and free zone developers.

The intent of the program is that private investors will take control of financing, construction, and operation of the zones. They will be able to develop their own telecommunications and power generation facilities. Once investors who are willing and qualified to develop the zone are identified, the Overseas Private Investment Corporation (OPIC) will consider the project for financing and A.I.D. can contribute funds for feasibility studies.[3] The Cameroon Government also offers incentives to investors. Individual companies not located in designated free zones can apply for benefits under the program — "*Point Franc*" status — although this part of the project still requires Ministry of Commerce and Industry ratification.

Project preparation has been time-consuming (planning began in 1987) as it has taken much longer than expected to get the various implementing regulations passed by the

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[2] The Board of Directors of the NOIFZ has six private sector representatives and three from the public sector. Once the regime is fully operational, free zone enterprises, operators and developers will directly elect all six members of the Board.

[3] AFR/MDI Africa Updates, July 1990.

government. More recently political unrest in Douala (the "*ville morte*") has delayed action by OPIC in providing 35% loan and equity financing for the development of the Free Zone. However, progress has been made in that all controlling legislation has been passed (April 1991) and the Director General of the NOIFZ has been appointed (Dec. 1991). A manual governing customs procedures is still not ready but is expected by July 1992. In the meantime, under an *ad hoc* approval procedure, nine firms have applied for *Point Franc* status, roughly half Cameroon-owned firms and half French-owned.

4.3.2 Performance Indicators

Highlights of the logical framework for the PREPS Project, prepared in August 1990, are as follows:

Goal:	Increase investment, employment, production, and expand markets in the private sector.
Indicators:	Increases in export volume and value, greater diversification of exports into non-traditional activities, increase in number of export-oriented firms, increase in number of jobs created in free-trade zone, increase in linkages between export activities and local suppliers of inputs (backward linkages).
Purpose:	Support the development and implementation of a privately managed free zone regime which operates efficiently and in strict adherence with the latest provisions of the Cameroon Free Trade Zone Law.
Indicators:	Decrease in time and cost required for investment approval as indicated by the number of institutions involved in approval process, investment approval time reduced from 6 to 18 months to 30 days, licenses/permits/authorizations reduced from 36 to 1, reduction in average time to clear customs from 4 to 8 weeks to less than one week, time for settlement of disputes reduced from 2 to 4 years in court system to creation of alternative settlement mechanism.

At this early juncture, the Mission feels that these indicators are adequate to measure performance. It is, however, too early to judge to what degree the required information is available and how effective they are as measures of performance. An A.I.D. evaluation is scheduled for September 1992, at which time it may be expected that there will be a review of the indicators.

4.3.3 Impact of Activity

Impact of the PREPS project at this stage may be seen only in the new hope it has given exporters that they may be able to overcome the numerous obstacles the current regime places in their path. The delay in fully implementing the project has caused discouragement, but it is recognized that this is mainly due to current economic and political uncertainties.

4.3.4 Views of Participants

Among the exporting firms applying for entry into the Cameroon Free Zone Regime are two coffee roaster/packers, a green coffee bean packer, two fresh green bean packers, a plywood manufacturer, and a cacao bean processor. All are currently applying for *Point Franc* status.

One of the applicants — the promoter of a proposed coffee processing enterprise — was interviewed. M. Gerard Gauthier states that he has lined up financing for a 400 kg/hr coffee roasting and packing line. Gauthier has made arrangements with a distributor in Europe who would handle coffee packed under Gauthier's own label — "San Fernando". Gauthier, who is a French citizen, would have a French partner along with Cameroonian shareholders.

At the time of the interview, M. Gauthier was enthusiastic about the features of the Free Zone Regime but discouraged by the long delay in developing the Free Zone area at the port of Douala. He had hoped to install his plant within the Zone, but in view of the delay he is now an applicant for *Point Franc* status and is looking for a site elsewhere in Douala. In M. Gauthier's view, the political unrest in Cameroon "discouraged the Americans" from proceeding with financing of the Zone (OPIC funds), and this has caused potential investors to lose faith in the project.

4.3.5 Information Gaps

The A.I.D. Program Manager, Graham Knight, noted that several information gaps became apparent after the program began operation. For example, it was necessary to amend the project to add $500,000 for complementary research activities on implementation of the Free Zone Regime. More information was needed on industries which were likely to benefit from the Free Zone in order to target a marketing effort. Also, research was needed on the effect of backward linkages into the Cameroon economy.

4.3.6 Lessons Learned

The Program Manager noted that he had to take a much more pragmatic approach than had his predecessor — in effect, a more hands-on approach — in order to get government agencies to make exceptions to their normal lengthy and involved procedures. The Customs Department was particularly difficult because of the rampant corruption, but according to Knight a new procedures manual governing Customs activities in the Free Zone is about to be issued.

4.4 The North Cameroon Seed Multiplication Project

This long-running and ultimately successful A.I.D. project in Cameroon has experienced numerous problems over its fifteen-year history. Its privatization in 1991, when a U.S. company leased A.I.D.-financed seed production and processing facilities from the Cameroon government, is a unique example of A.I.D.'s use of incentives to encourage U.S. private investment in Africa.

4.4.1 Background

The North Cameroon Seed Multiplication Project was designed in 1975 with the goal of increasing agricultural production and incomes for farmers in the poor Sahelian region of North Cameroon. A self-sustaining system for the production, distribution, and use of improved varieties of sorghum and peanut seeds was to be established, offering farmers alternatives to cotton, which had been ravaged by drought. In the first five years, the project made little progress. As originally conceived, the project emphasized heavy institution-building. A newly created parastatal, MIDEVIV, was to administer the project under an A.I.D. grant. Training of Cameroonian officials at U.S. universities was to strengthen MIDEVIV's capabilities in seed technology and seed production, while SODECOTON, a parastatal which supported small farmer production of cotton, and the Ministry of Agriculture were to provide seed distribution and extension services. The Institut de Recherche Agronomique (IRA) had research responsibilities and was to provide breeder seed (improved seed which can be reproduced) for multiplication on three farms operated by MIDEVIV. The concept was similar to the U.S. land-grant university system, whereby a publicly supported institution would improve, produce, and extend seed. It soon became apparent that A.I.D. and the Government had attempted to do too much with too few resources. Improved seed was not readily available from IRA and the quality of seed distributed to farmers was poor.

Under Phase II, authorized in 1982, the project was scaled back and goals were more clearly defined. A.I.D. would help the GRC develop an institution to produce improved peanut, corn, sorghum, and millet seed to distribute to farmers. A contract was signed with the Development Assistance Corporation (DAC) to provide training and technical assistance to develop the GRC's institutional capability. A.I.D. also agreed to provide funds to build a seed treatment plant and purchase farm equipment for seed production. Eventual privatization of seed production and distribution was envisaged.

4.4.2 Impact of Activity

A 1985 A.I.D. evaluation of Phase II found that very little progress had been made toward project objectives. Among the problems experienced were the following:

- There were delays in fielding the contractor team. Some team members performed unsatisfactorily. In 1984, the Chief of Party was replaced.

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- Construction of seed processing facilities was delayed (the work was not completed until early 1987) due largely to procedural delays by the GRC.
- Training fell behind schedule, but evaluators concluded that it was unrealistic to expect the GRC counterpart organization to function normally when nine officials were on long-term training in the U.S.
- Conflicts developed between the contractor and GRC officials.
- One of the two farm sites had to be eliminated due to unsuitable conditions. GRC officials informed evaluators that the farm sites had been selected for political reasons.
- The development of improved varieties of seed for four crops would take much longer than the planned five years.
- The domestic market for peanuts was limited. Local cottonseed oil mills refused to accept peanuts for processing, and prices for raw peanuts were uncompetitive on world markets.
- There was no basis for certification of seeds since there was no quality control system to ensure purity and germination rates.
- No privatization plan had been developed, as called for in the technical assistance contract.

In summary, evaluators found that the project design was again unrealistic in planning too much in too short a time.[4]

On the positive side, the contractor reports that by May 1987, one farm was fully operational; new varieties of peanuts, maize, sorghum and cowpeas had been released based on earlier work by IRA; a network of contract growers was underway; and quality control problems had been largely resolved. Small farm productivity increases due to the new varieties could be documented. However, problems remained, including conflicts between the IRA and project staff over conflicting roles and responsibilities, and insufficient extension activities by the project. Serious questions remained about the potential for project sustainability after termination of A.I.D. assistance in 1988.

Later it was decided to extend the project through 1990. Greater emphasis was placed on developing the economic viability of seed production, processing and marketing, expanded contract seed multiplication, and additional market analysis. The project dropped sorghum from its program due to low demand and focused on peanuts, maize, and cowpeas--crops with higher demand and greater market value. However, the contractor's final report notes that insufficient attention was paid to how true "certified" seed would be produced since Cameroon had no independent certifying organization, and IRA proved incapable of providing quality breeder seed. Also, no provision had been made for production and processing of hybrid seed, which would be essential to a private commercial seed operation. (Subsequently, funds were provided for equipment to handle hybrid seed.)

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[4] A.I.D., "Audit of the North Cameroon Seed Multiplication Project," November 1985.

Privatization Activities. A.I.D.'s contractor, DAC, included a privatization plan in its implementation schedule for 1989. It was apparent that economic conditions in Cameroon had deteriorated to the point that the GRC could no longer support the project, and in any case appeared unwilling to make necessary structural changes in the agencies involved which would make the project self-sufficient. However, the Ministry of Agriculture supported the privatization. With authorization from USAID/Cameroon, DAC made contact in the U.S. with several large seed companies: Pioneer, DeKalb, Cargill, and Wilco (a Texas peanut seed company). Subsequently, two U.S. firms (Pioneer and DeKalb) and one Swiss firm (Ciba-Geigy) sent teams to Cameroon to investigate.

DAC pursued discussions with Pioneer Hi-Bred Seed, which appeared to be the best choice; Pioneer had already decided to enter the African market and had extensive overseas experience. As a result, it was decided that the first step should be to bring a Pioneer staff member to Cameroon for 6 to 12 months to serve as Private Sector Seed Specialist on the DAC team. This would allow the specialist to do the necessary evaluations and analysis needed before any seed company could decide to invest in the project. In December 1989, the specialist produced a feasibility study for a joint venture between Pioneer and the GRC. In August 1990, a protocol agreement was signed between Pioneer, USAID, and the Ministry of Agriculture calling for a 20-year lease of all NCSMP project facilities to Pioneer. In March 1991, a *convention d'établissement* was signed with the GRC which confirmed the lease arrangement upon payment by Pioneer of a "symbolic price" ($1). A.I.D. facilitated the whole arrangement through forgiveness of GRC repayment for the loan that financed construction of the seed treatment plant.

Upon signing of the convention, Pioneer's Cameroon subsidiary, PACSA, immediately took over the facilities and began operations. Pioneer is investing $2 million in the enterprise and has begun growing open-pollinated peanut, corn, sorghum, and cowpea seed on about 500 hectares. Hybrid corn and sorghum will be added later, and Pioneer hopes ultimately to export hybrid seed to neighboring central African countries. Seven former Cameroonian NCSMP employees were sent to Pioneer's Egyptian operation for training and PACSA subsequently hired four. Provisions have been made for Cameroonians to have a 20 percent share of ownership.

4.4.3 Lessons Learned

The former DAC Chief of Party, Robert Hans, summarized lessons learned from the project and the later privatization exercise as follows:

- Institutional strengthening and capacity building objectives are not always effective in achieving sustainable development as governments do not or cannot always live up to their end of the bargain.

- Wherever possible, the private sector should be relied upon to achieve development goals as it is far more dynamic and rigorous in its approach and methodology.

- **Donor agencies should come up with methods which will provide incentives to the private sector to take up development activities, while obliging them to put up some risk capital to ensure the same rigor, dynamism, and accountability that they employ in their commercial activities.**[5]

Hans points out that without the incentives and concessions which Pioneer received, the company would never have invested in Cameroon and the whole seed project would have perished or — perhaps worse -- been started all over by another donor. He says that by involving private sector firms that operate with a profit motive, development goals can be met with greatly reduced funding from donor agencies. Hence, A.I.D.'s role becomes primarily one of brokering or match-making.

Hans said that "Incentives are necessary to attract private investment due to the well-known constraints private companies face in establishing themselves in Africa. These incentives play the same role as the tax holidays and subsidized leases provided to private companies by municipalities in the U.S. to attract investment."

5. Indicators of Agribusiness Performance

USAID/Cameroon has been unique among USAID missions in its resolute quest for a "framework within which to better understand the significance of institutional arrangements as well as identifying a manageable number of key variables or relationships that will help to focus the attention of Mission staff during the design and implementation of policy reform activities" (CDSS, 1989. p. 20). The Mission now appears committed to the Institutional Analysis and Design (IAD) Framework as a tool for project design, implementation, and evaluation. The Mission, or at least key personnel on the staff as of April 1992, make little or no use of the Logical Framework and of performance indicators.

The IAD basic framework consists of four sets of attributes: (1) the physical world, which establishes constraints and opportunities; (2) institutional arrangements, which specify who decides what in relation to whom; (3) patterns of interaction among actors, as each follows strategic calculations; and (4) outcomes or consequences for various communities of interest (Oakerson, Wynne, Truong, and Walker, 1990). "The framework rests on an assumption that the structure of the physical world together with institutional arrangements define discretion and create incentives that shape patterns of interaction among decision-makers.... These patterns of interaction, in turn, lead to outcomes" (USAID/Cameroon, 1991).

The framework requires analysis at different levels: generally, the operational level (e.g. project implementation), the bureaucracy (bureaucratic policy regime), and the governance or

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[5] Development Assistance Corporation, "Final Report: North Cameroon Seed Multiplication Project, Phase II, 1991(?).

constitutional order. The task of institutional design is to see how changes in these rules may result in patterns of interactions that could produce more desired outcomes. Rules and patterns of interaction at each level are nested in other levels. In order to alter the rules and patterns of interaction to make them consistent with desired outcomes at the operational level, one may need to alter the rules, patterns, and interactions at the bureaucratic level, and even the governance order.

The Mission has drawn on the basic elements of institutional analysis in the process of designing and implementing the FSSRP (Oakerson, Wynne, Truong, and Walker, 1990; Truong and Walker, 1990), although the program was designed before the Mission had embraced the IAD framework. The Mission applied the IAD framework and its methodology in the design of the project component of PRAMS I (USAID/Cameroon, 1991; Geller, Oakerson, and Wynne, 1990). At the Mission's request, a recent mid-term evaluation of the Cameroon Agricultural Policy and Planning Project (CAPP) also made use of the IAD framework (Hobgood, Ouedraogo, and Wigton, 1991).

An AID/W evaluation of FSSRP commends the Mission for the use of "an innovative analytical framework that has contributed to clarifying their approach to problem solving...The program's positive impacts to date can be partially attributed to these factors." The evaluation says, however, that "if the program is to lead to a completely autonomous private system, then all involved will have to pay closer attention to building the capacity of private actors to manage fertilizer import and distribution by the end of the program... The role of arbitrator is not appropriate for A.I.D. Market [participants] have their own forms of arbitration, or must develop them, and arbitration should be left to them. Otherwise, A.I.D., as a U.S. public sector entity, will get caught in the middle of disputes, and it will be difficult to wean participants from dependency on A.I.D." (AID/W, 1991, pp.11,13).

USAID/Cameroon, however, believes that rather than using a laissez-faire management style as the evaluators recommended, it must nurture the private sector to ensure adequate short-term performance and lay the foundation for long-term sustainability. For the FSSRP, "short-term performance is measured by ensuring effective demand and efficient supply. Without both, the market will fail...[and] if there is a breakdown in the system, there may be nothing to sustain." (AID/W, 1991. p.26.)

6. Lessons from Cameroon in Planning Private Sector Agribusiness Activities

Some interesting lessons may be drawn from USAID/Cameroon's experience since 1985 in planning and implementing agribusiness activities.

Project Planning and Design

- **Wherever possible, A.I.D. should rely on the rigor, dynamism, and accountability of private firms to achieve agribusiness development goals.** To

promote such involvement in areas where private U.S. agribusiness firms would not otherwise go, A.I.D. and host governments should provide incentives which defray start-up costs and help reduce risks. These companies should, however, be required to risk some of their own capital to assure that their analysis is as rigorous as it would be in a non-developmental context.

- **An intimate knowledge of local private sector activities, strengths, and weaknesses is essential to planning private sector agribusiness activities.** This has not traditionally been a part of USAID Mission activities. Mission staffing should include persons with private sector experience and they should develop a network of local private sector contacts.

- **The design of agribusiness projects which promote trade and investment in specific commodity sectors must include analysis of domestic and international supply, consumption, and price trends for that commodity.** A USAID program which promotes exports of a commodity with poor long-term market potential runs a high risk of failure.

- USAID/Cameroon's use of **institutional analysis** in the planning of private sector reform projects **calls attention to the importance of the role of "stakeholders"** — individuals in the government and private sector who have a stake in the old system **— and finding ways to compensate or work around them.**

Sustainability

- A.I.D. projects which include government institution-building in support of the private sector need to take into account the generally poor performance of developing country governments in the past and the failure to achieve sustainability. Long and patient negotiation is required to achieve the desired objective, even when the will is there and funding availability may decline during economic downturns.

- **Wherever possible, supporting institutions, such as investment promotion agencies or free trade zone management entities, should be in the private sector.** Private entities such as trade associations are more likely to be able to represent the views of private enterprise, and to have available the necessary expertise. Careful analysis will be required to decide if these tasks can best be performed by an offshoot of an existing organization or if an entirely new entity is needed. In any case, there need to be clear ground rules about open access to all firms to avoid restraint of trade practices.

- **An intensive and time-consuming process of nurturing the local private sector may be necessary where there is a history of strong public sector control of the economy.** An example of such nurturing which would be a part of a private sector agribusiness promotion program would be training in business practices for small

and medium-sized enterpreneurs, including how to prepare a business plan, and how to apply for a commercial bank loan.

Project Assessment and Monitoring

- **Periodic roundtable discussions** which bring together private and public sector participants in programs which rely on government actions, such as privatization programs, **are a very useful way to air and discuss problems and misunderstandings and to devise necessary modifications.**

7. A Proposed ARTS/FARA Research Agenda

The above account should make it clear that USAID/Cameroon has accumulated some valuable experience in designing and implementing agricultural marketing and agribusiness activities using the institutional analysis and design framework. It seems clear from this experience that A.I.D. projects involving liberalization and privatization must give more emphasis to the role of government, and key individuals in governments, in blocking or impeding change.

It is recommended that ARTS/FARA organize a two or three-day seminar or workshop at which this experience could be presented to USAID Mission and A.I.D./Washington personnel. The presentation would feature experience with the design and implementation of the FSSRP Project and the design and initial implementation of the PRAMS I Project. Key personnel involved in this work will all be available in Washington from July 1992 onwards and should be recruited for this seminar. This includes former Mission Director Jay Johnson, Chief Mission Economist Dr. Tham Truong, and Institutional Specialist Robert Shoemaker. Tjip Walker, now at Indiana University, Workshop in Political Theory and Policy Analysis, was formerly heavily involved in implementing the FSSRP and should also be invited.

Sufficient funds should be allocated to allow preparation of a planning guide or manual which could be used by Mission personnel in designing in programs of this type.

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ANNEX B

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN KENYA

1. Introduction

Kenya is often cited as a successful example of a mixed economy, combining aspects of laissez-faire capitalism with traditional African socialism. A Sessional Paper published by the Government in 1986, however, calls for the private sector to assume a more dominant role in economic development through the year 2000. The Government's primary role as stated in the Sessional Paper is to establish market incentives that help channel private sector activity. The Government has since signed several structural agreements with donors such as the IMF and the World Bank. Nonetheless, the adjustment has been slow and some backsliding in policy reform is evident, particularly in the agricultural sector.

Kenya is currently undergoing a somewhat rocky transition to multiparty democracy. The government continues to assert that Kenya is not ready for multiparty elections because of tribal friction. Despite this assertion, the government has apparently accepted its fate but only after highly-publicized protests from local activists and financial arm-twisting from large donors of foreign aid. Recently, several protests against the detention of political activists have repressed by police and future political rallies have been banned. The government continues to claim that elections will be held by January 22, 1993.

Agriculture is an important part of the Kenyan economy. The agriculture sector employs roughly 80 percent of the working population and accounts for almost one-third of GDP (32 percent in 1989). Agricultural exports are also an important source of foreign exchange, second only to foreign aid transfers. Tea and coffee, Kenya's two primary exports, account for 45 percent of the total export value. Kenya also exports cut flowers, pyrethrum, and fresh and processed fruits and vegetables. Important domestic food crops include maize and beans, Kenya's primary staple crops, and sorghum, millet, cabbage, kale, and potatoes.

Kenya was selected for in-depth examination and field work for several reasons:

- Kenya's notable economic performance since independence can be traced in part to a complementary mix of private enterprise and government intervention.
- The country is in the process of shifting to a more market-oriented agricultural economy.
- The diversity of agro-ecological conditions is complementary to and should stimulate intra-country regional trade.
- USAID/Kenya has a project/program portfolio that targets agricultural marketing and agribusiness.

USAID/Kenya has several programs and projects that address agribusiness and agricultural marketing directly or indirectly. This annex will discuss the following projects:

- Agricultural Management Program
- Kenya Market Development Program
- Fertilizer Pricing and Marketing Reform Program
- National Agricultural Research Project
- On-Farm Grain Storage Project
- Rural Private Enterprise Project
- Private Enterprise Development Project
- Kenya Export Development Support Project

2. Key indicators of Economic Performance

Kenya has long had a reputation as one of the best economic performers in Africa. Real GDP grew by just under 7 percent annually between independence in 1963 and 1973, the year of the first oil crisis. Agricultural production grew by 5 percent per year over that same period. More recently, average GDP growth has slowed, dropping to 4.1 percent annually from 1981 through 1989. Growth in GDP was reported to be 2.2 percent in 1991, the lowest since the drought year of 1984 and well below the growth rates of 4.3 percent in 1990 and 5.0 percent in 1989. At the same time GDP growth rates have declined, inflation has risen from an average annual rate of 9.1 percent during the 1980s to 15.1 percent in 1990 and 19.6 percent in 1991. (CBS, *Economic Survey*: 1992).

	[illegible]	[illegible]990	1980-1990
Population (millions)	16.6	24	
Annual Population Growth Rate	3.9 %	3.7 %	3.8 %
Urban Population Growth Rate			7.9 %
Urban Population/Total Pop	16.1 %	24 %	
Per Capita GNP	$ 420	$ 370	
Average Annual Growth in GDP			4.2 %
Agricultural Contribution to GDP	34 %	28 %	
Inflation Rate			9.2 %
Debt Service (% of Exports)	21.4%	33.8%	

Source: World Development Report, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

Growth in agricultural production has also tapered off. Kenya's population growth rate of 3.7 percent, although declining in recent years due to successful GOK family planning efforts, is still the highest in Sub-Saharan Africa. Despite these problems, Kenya is thought to have great potential for achieving sustainable, broad-based economic growth. Important economic indicators are listed above.

3. Structural Adjustment Programs

USAID, the IMF, the World Bank and others have provided substantial financial support through structural adjustment programs for policy reform efforts. Over the last decade, the GOK has signed a series of seven standby agreements with the IMF and five structural adjustment lending agreements with the Bank. The U.S., a smaller contributor to the structural adjustment process, has written off debt and provided support through annual Commodity Import Program (CIP) agreements.

GOK compliance with structural adjustment programs has been uneven. On the positive side, the Kenyan shilling has been devalued several times, import restrictions have been reduced, and some wholesale and retail prices that were previously fixed by the GOK have been allowed to fluctuate. On the negative side, an anti-export bias remains, government expenditures as a proportion of GDP have actually increased, and the Government has reversed some of the progress made in market liberalization. Specifically, in the fall of 1991, some local government officials revoked the licenses of private sector grain traders and reopened several parastatal grain buying centers. Further, it has become clear that policy reform liberalizing maize movement has not been effectively implemented. District-level government officials in at least two districts have reimposed grain movement restrictions despite state government policy to the contrary. Private traders have also reported having to pay an average of 20 Kenyan Shillings per bag of maize to ship grain accross district lines despite relaxation of movement controls (see G. Argwings-Kodhek, 1992).

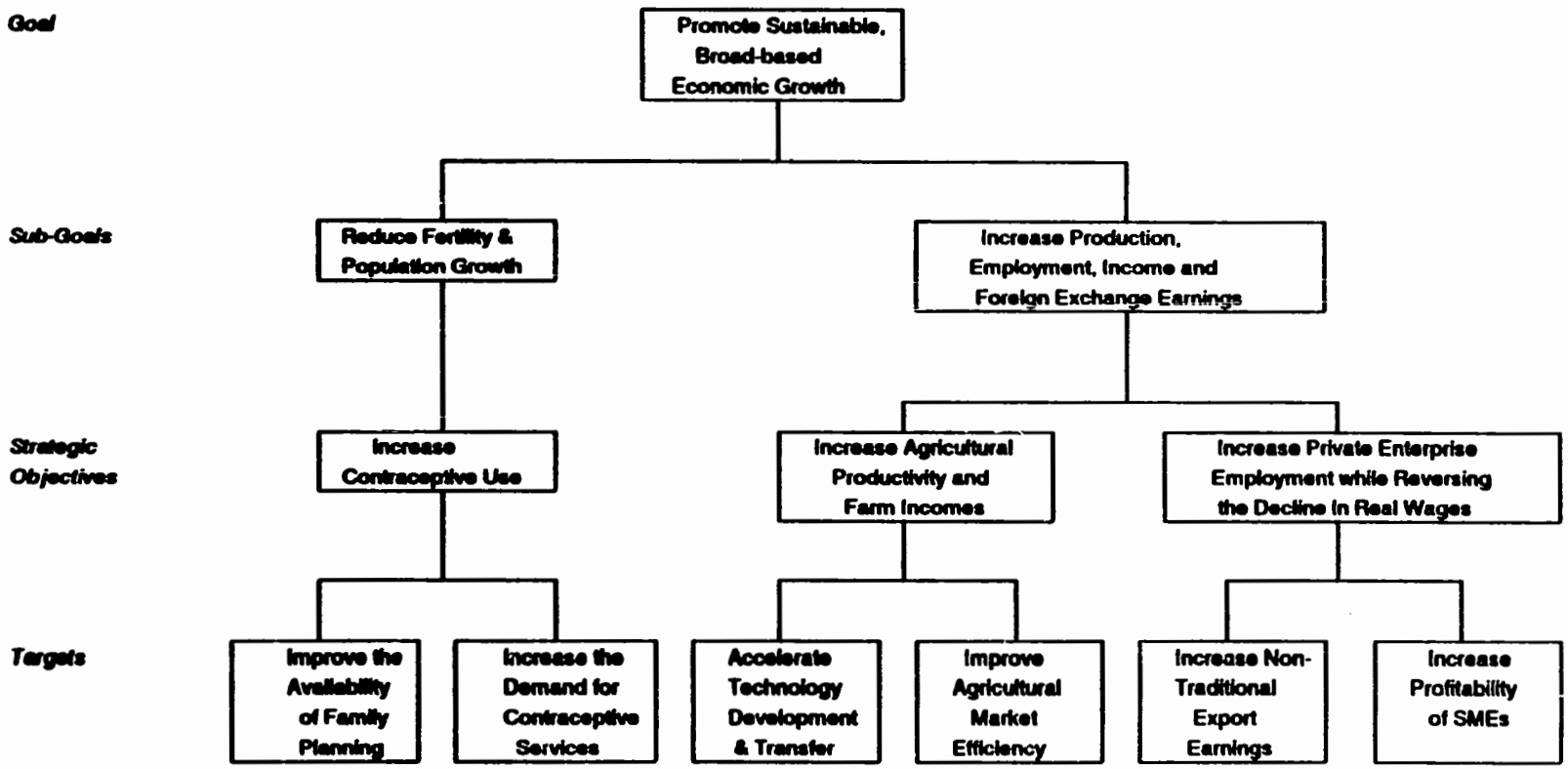
4. USAID/Kenya Program Logframe and Performance Indicators

The linkage between individual strategic project objectives to the overall Mission goal of sustainable broad-based economic growth is depicted graphically in a simplified version of the Mission's logframe (Figure D-1). The strategic objective for the Agricultural Development Office is increased agricultural productivity and farm income. Specific project targets include accelerated technology development and transfer, and improved agricultural market efficiency. The strategic objective for projects managed by the Private Sector Office is increased private sector employment, income and foreign exchange earnings. Specific targets include increased non-traditional export earnings and increased profitability of small and medium enterprises.

The Mission identified performance criteria for evaluating achievement of the strategic objectives as well as project sub-targets specified in the logframe. Primary considerations in choosing the indicators were that the indicators be "definable and operational." Consequently,

Figure D-1

USAID/KENYA PROGRAM LOGFRAME



Source: USAID/Kenya Assessment of Program Impact (October 31, 1991)

Figure D-2

PROJECT INDICATORS

STRATEGIC OBJECTIVE: INCREASE AGRICULTURAL PRODUCTIVITY AND FARM INCOME

SUB-TARGET: IMPROVED FERTILIZER MARKET EFFICIENCY

Marketing Margins for Fertilizer (DAP)

- Mombasa-Nakuru stockist gross margin
- Nakuru stockist price/CIF Mombasa (adjusted)

Domestic DAP Fertilizer Price as % of World Prices

SUB-TARGET: IMPROVED GRAIN MARKET EFFICIENCY

Marketing Costs for Maize

- Average marketing costs
- Ratio of private trader costs/NCPB

Variation in Seasonal and Regional Maize Prices

- Seasonal average price differentials - surplus markets
- Seasonal average price differentials - deficit markets
- Regional average price differentials - Western Kenya
- Regional average price differentials - Eastern Kenya

SUB-TARGET: INCREASED ADOPTION OF NEW TECHNOLOGIES

- HYV Maize seed sales (tons/year)
- % Maize Production Area Under HYV Maize
- % HYV Maize Area Under Smallholder Production

SUB-TARGET: INCREASE DEVELOPMENT & TRANSFER OF TECHNOLOGIES

- Number Of New Seed Varieties Disseminated

STRATEGIC OBJECTIVE: INCREASE PRIVATE ENTERPRISE EMPLOYMENT WHILE REVERSING DECLINE IN REAL WAGES

SUB-TARGET: INCREASED NON-TRADITIONAL EXPORT (NTE) EARNINGS

- Total Value of NTE
- Number of NTE enterprises
- Employment in NTE sector

SUB-TARGET: IMPROVED POLICY ENVIRONMENT FOR EXPORTS

- Number of Kenyan Organizations with programs designed to support NTE firms
- Number of NTE firms assisted per annum

SUB-TARGET: INCREASED PROFITABILITY OF SMALL AND MEDIUM ENTERPRISES (SME)

- Average annual real revenues per SME
- Total Employment in SME

SUB-TARGET: IMPROVED ENABLING ENVIRONMENT FOR SMEs

- Number of Kenyan Organizations with programs designed to support NTE firms

all of the criteria are quantifiable and can be collected in a manner that is consistent over time. A list of project indicators as described in the USAID/Kenya paper titled *Assessment of Program Impact, October 31, 1991* is provided in Figure D-2 below.

All Mission personnel interviewed stressed that the performance indicators chosen are very inexact measures of project impact. None like being held accountable for broad measures of sector performance that are influenced, if not controlled, by factors well outside the control of the project or USAID. Several persons felt that agriculture projects, in particular, were unfairly evaluated by sector-wide performance while health and private enterprise projects were more often evaluated with process indicators. Interviewees also felt that choice of targets against which to base project success is entirely subjective and very difficult to defend on any systematic basis. More fundamentally, comparison of the logframe to the indicators indicate that linkages between the project impact indicators and the overall strategic objectives are tenuous.

Some of the data required for performance evaluation is already collected either by donor or by government institutions. However, many of the data for the sub-target indicators are not readily available, but must be collected specifically for the purpose of impact evaluation. As of the fourth quarter, 1991, the Mission had not collected baseline statistics for many of the criteria nor had it developed targets for FY 1995 against which to judge performance. According to the October 1991 performance evaluation. all baseline data were expected to be collected and targets established in the second quarter of 1992.

5. USAID/Kenya Agriculture and Rural Development Programs and Projects

5.1 Agricultural Management Project (AMP)

The objective of this project is to strengthen the management capacity and operational performance of private sector firms and public institutions that support smallholder farming. The project was established in September 1985 with a $3 million grant and $1 million in counterpart funds. It is worth noting that USAID is the only donor that is providing support to strengthen the managerial capacity of agribusinesses in Kenya.

The original project design focused on three activities: management needs assessments (MNA) for selected organizations; follow-up technical assistance to address weaknesses identified in MNAs; and on-site training and general management seminars. Since 1990, the project has also begun to strengthen the public and private sector capacity to continue these activities after the project ends in 1992. Specifically, the project emphasis has shifted toward strengthening private sector capacity to provide management consulting services; stimulating demand for consulting services by agribusinesses; and supporting a university agribusiness program at Egerton University.

To date, the project performance has had mixed reviews. It is clear that several organizations improved their operational performance as a direct result of TA provided by AMP.

Nonetheless, the concept of integrated technical assistance that underpins the project design proved less inviting than anticipated. According to a mid-term evaluation, only 14 of the 36 clients that received MNAs chose to receive follow-up technical assistance and only seven clients received additional on-site training (June 1991). It is important to note that MNAs were provided to clients without cost. Training and follow-up assistance were provided on a cost sharing basis.

More importantly, project success in achieving the intermediate objective of improved operational efficiency has been limited to a select group of firms and institutions, some of which have the capacity and resources to undertake MNAs and hire outside TA without project assistance. Finally, the linkage between project activities and the ultimate goal, increased smallholder production and income, is difficult to measure; therefore, the impact is not evident.

5.2 Kenya Market Development Program (KMDP)

Until recently, the Government of Kenya tightly regulated maize and bean marketing. Producer prices were set once a year and sales and movement of beans and maize were strictly controlled. The National Cereals Produce Board (NCPB), a parastatal responsible for improving food security throughout Kenya, has dominated the grain marketing sector and is the sole authority for issuing grain movement permits to private sector participants.

NCPB performance in regulating and distributing supply, however, has been inadequate. Prices and availability of maize vary substantially across districts and throughout the season. Small farmers have not had equal access to NCPB buying stations, and to acquire movement permits, farmers and traders have commonly had to make "rent" payments to government officials. The policy has also resulted in mounting fiscal deficits for NCPB, placing a substantial strain on the government budget. Perhaps most importantly, the policy structure has reduced incentives for producers and traders of maize and beans. As a result, production of maize, Kenya's major food staple, has not kept pace with population growth. Indeed, per capita maize production fell from 133.0 kg in 1986 to 115.3 kg in 1990. It is clear that Kenya's policy structure has ultimately impeded growth of the agricultural sector as a whole.

The Kenya Market Development Program (KMDP) was designed with the objective of developing a more efficient maize and bean marketing system. As implied above, this suggests a transition to a more market-driven system and a corresponding reduction in the role that NCPB plays in grain marketing. Achievement of that objective is expected to contribute to the ultimate goal of increases in net farm incomes and maize and bean production. KMDP combines several types of funding: Development Fund for Africa (DFA) non-project assistance ($10 million), DFA project assistance ($5 million), and Food for Progress ($40 million).

KMDP is essentially composed of three complementary components: policy reform support, technical assistance, and infrastructure rehabilitation. To date, USAID has provided substantial encouragement in the form of food assistance and cash transfers in exchange for the elimination of movement controls and other policy impediments to private sector marketing. Specifically, all restrictions on private sector bean marketing have been lifted and beans are no

longer classified as a scheduled crop. Restrictions on maize movement have also been relaxed: a license is no longer needed to move up to 88 bags (nearly 8 metric tons) across district boundaries. KMDP calls for the total elimination of maize movement controls by mid-1992.

To complement policy reform, KMDP is providing technical assistance and commodities (e.g. computers, vehicle, weighing scales) to strengthen existing GOK systems for collecting, analyzing, and disseminating market information for cereals and horticulture products to public and private sector participants. This component of the program began in May 1992. It is reasoned that effective market information systems (MIS) will perform two functions vital to development of an efficient market-driven grain marketing system. First, the MIS will provide donors and policy makers with information for closely monitoring policy reform. Timely market information will help early identification of regional shortages, helping to ensure that food security needs are not compromised. Second, market information that is disseminated to the public on a timely basis will inform private sector participants of market opportunities and thus encourage movement of commodities from surplus (low price) areas to deficit (high price) areas. As more farmers and traders become aware of these market opportunities and prevailing prices in general, increasing competition should spur efforts to lower costs and improve efficiency. In addition, greater competition among traders suggests that producer prices in general will increase. Higher producer prices will in turn provide greater incentive for increased production.

USAID is also assisting with the rehabilitation of secondary marketing roads and is encouraging the Government to improve policies regarding the frequency of road maintenance. Currently, the poor condition of secondary roads hinders farmer and trader access to markets. Rehabilitation of these roads is necessary to ensure that farmers and traders can respond to policy changes and to reduce costs of transporting crops to market.

A premise underlying the project design is that policy reform alone does not ensure a positive private sector response. At a minimum, farmers and traders as well as government officials must be adequately informed of policy changes before any impact can be expected. Private sector participants must also be confident that the Government is committed to policy changes, otherwise investment will not be forthcoming. Fundamental constraints such as poor infrastructure and lack of market information must also be addressed.

5.3 Fertilizer Pricing and Marketing Reform Program (FPMRP)

USAID has provided fertilizer to Kenya since 1974 through a number of mechanisms. In FY 1991, the Mission financed the import of 43,640 tons of Diammonium Phosphate (DAP), amounting to roughly 60 percent of the year's DAP supply. In 1984, under the FPMRP, USAID shifted emphasis from availability and use of fertilizer to the development of a private sector fertilizer marketing system. Program objectives became reduced fertilizer subsidies, more private sector participation, and a diminished government role in programming of fertilizer imports.

The FPMRP has been instrumental in the GOK's decisions to decontrol fertilizer prices and eliminate government allocation of import licenses. The project also helped establish an active association of 25 private fertilizer distributors, the Kenya National Fertilizer Association (KNFA). Under the FPMRP, the KNFA was given complete responsibility for allocation, handling, storage and transportation of the USAID/DAP importation. The association has also become a vehicle for private sector-government dialogue over fertilizer policy.

Before the FPMRP, all USAID-financed fertilizer shipments were transferred directly from the U.S. Government to the Kenyan Government. The GOK, in turn, allocated the fertilizer to distributors. In contrast, the last USAID-financed shipment of DAP in FY 1992 was distributed directly to importers under a Commodity Import Program (CIP) through a contract tender process. Importers received concessionary payment terms from USAID but were still required to arrange letter of credit guarantees from local Kenyan banks. Planned subsequent USAID shipments of fertilizer using a CIP mechanism were cancelled due to Mission budgetary cutbacks.

5.4 National Agricultural Research Project

USAID/Kenya, in coordination with 10 other donors, is providing support to Kenya Agricultural Research Institute (KARI). A key aspect of the USAID support is the development of institutional capacity within KARI to undertake research services for the private sector on a contract or cost-sharing basis. To date, contracts to undertake tissue culture research and develop disease resistant varieties have been established with a parastatal and three private sector firms. Nonetheless, KARI still concentrates on government-funded research for the general public, such as development of high-yielding and disease resistant maize varieties. The ten-year project, which began in 1986, may be scaled back significantly due to Mission budgetary cutbacks.

5.5 On-Farm Grain Storage Project

This project was designed to address the problem of high post-harvest grain losses that plague small-scale farmers throughout Kenya. The project began in 1982 and ended in 1991. The specific purpose was to expand the use of effective on-farm grain drying and storage practices in Kenya. This project was not entirely a marketing project because it aimed primarily at grain storage for home consumption, yet accomplishment of the project's objectives clearly has ramifications for agricultural marketing. Components of the project included assistance in these areas: expanding the Ministry of Agriculture's capacity to stimulate smallholder participation in identifying grain drying and storage problems and to facilitate adoption of appropriate on-farm technology; strengthening the capacity of agricultural educational institutions to provide training in storage and drying technologies; and undertaking studies to estimate grain losses.

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6. Private Enterprise Programs and Projects

USAID/Kenya's private sector program is one of the largest in Africa. In 1990, the program had roughly $154 million in funding scheduled and over 24 separate activities ongoing. While most of these activities do not address agribusinesses exclusively, three in particular do affect agribusiness development.

6.1 Rural Private Enterprise (RPE) Project

The $36 million RPE, which was implemented from FY83 to FY91, had two components; term credit was provided to small- and medium-sized agribusiness firms and other medium-sized firms in rural areas through commercial financial institutions; and grants and technical assistance were provided to private voluntary organizations that work with rural enterprises. The assistance to PVOs was administered through a Kenyan umbrella PVO, the Kenya Rural Enterprise Programme (K-REP), an organization that was created by the RPE project explicitly for that purpose. K-REP, in turn, provided technical and financial assistance to PVOs that work with microenterprises, and monitored and evaluated the RPE project. K-REP is currently providing similar techincal assistance and training to microenterprises under the PED project discussed below.

The private sector office concedes in retrospect that the design of the project was overly ambitious. The project's performance was mixed, at best. There was essentially no activity for the first five years of the project. The credit provided by USAID went largely unused. Commercial banks were reluctant to participate in the program because they were required to provide one-third of the loan amount at below market rates. Commercial banks in Kenya also have no experience in providing term-credit and were especially reluctant to start with small and medium-sized firms. In contrast, process indicators used to evaluate the project suggest that the technical assistance component had a positive impact. 113 businesses received technical assistance. The number of workers employed by these firms increased by an average of 30 percent per year. Average sales increased by 11 per cent per year. Whether or not these measures are valid indicators of project performance, though, is clearly questionable.

6.2 Private Enterprise Development Project (PED)

The $25 million PED project, which began in FY 87 and will end in FY94, has several very distinct but complementary components. Through one component, the PED established a venture capital firm and provided funding to it and another venture capital firm through a long-term line of credit at a commercial bank. As of October, 1991, $7.7 million had been invested in 10 local businesses, one of which has since been sold at a profit.

The PED has also provided technical assistance to the Investment Promotion Centre, an agency within the Ministry of Finance that facilitates investment in Kenya.

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A third component provides credit, technical assistance and training to microenterprises. The design of this component has several interesting aspects. Following the model developed in the RPE project, assistance is directed at NGOs that in turn provide training and support to client microenterprises. Similarly, loans are granted to groups of borrowers who in turn administer the loans to group members on a rotating basis, comparable to the Grameen Bank model. Originally, loans were given directly to individuals and were automatically accompanied by business management training. This integrated, direct approach was dropped because of high loan transaction costs and unacceptable loan repayment rates. Automatic training was eliminated because it was costly and often deemed inappropriate.

6.3 Kenya Export Development Support Project (KEDS)

As mentioned above, Kenya's rate of population growth is the highest in Sub-saharan Africa. As a result, roughly 420,000 people enter the work force each year. The World Bank has estimated that the labor force will grow by an average of 3.7% annually over the next 10 years, substantially greater than the estimated rate of growth in job creation (3.0 % annually). The KEDS project, which began in mid-1992, will address the accelerating employment crisis as well as Kenya's deteriorating balance of payments situation. The project goal is to increase employment and foreign exchange earnings on a sustainable basis through expansion of non-traditional exports.

As with KMDP, KEDS uses an integrated approach that addresses the policy environment and private exporter capacity. Specifically, KEDS will support the Government's efforts to streamline the export process through analysis of constraints and dialogue with several agencies. Policy reform will be complemented by technical assistance to strengthen the capacity of non-traditional exporters to take advantage of changing regulations. The project will help exporters identify markets; produce internationally competitive products; promote their products in export markets; and expand export production, among other things. KEDS will also provide foreign currency for medium-scale enterprises through a credit swap arrangement to the Central Bank for investment in export processing zones.

This project does not target agribusiness exclusively. However, agro-processing and horticultural export firms and producers are expected to be key beneficiaries.

7. Approaches to Agribusiness Development and Promotion

USAID/Kenya and other donors clearly recognize the importance of agricultural marketing in achieving increased agricultural productivity in Kenya. Indeed, recent donor studies stated that two of four key constraints to improved agricultural productivity relate directly to marketing: inefficient marketing and pricing policies and inefficient agricultural input supply systems. As discussed above, USAID/Kenya is addressing both these constraints through a varied portfolio of projects and programs.

A general pattern that is reflected throughout the Mission's portfolio is to support basic economic structural adjustment and policy reforms at the sectoral level and to complement them with other measures that address participant capacity and institutional inadequacy. The basic tenet underlying this strategy is that obtrusive government regulation and direct involvement has inhibited private sector participation in economic development. Further, policy reform alone does not guarantee positive private sector response. Constraints such as a poor transportation network, weak private sector managerial and technical capacity, and inadequate credit systems must be addressed simultaneously with policy reform efforts. Both KEDS and KMDP include components for policy reform and institutional strengthening. KEDS provides firm-level credit and technical assistance while KMDP assists farmers and traders more indirectly through improved infrastructure and market information.

A unique aspect of the Private Sector Office's general approach is to combine policy reform efforts with institutional strengthening by supporting the development of Kenyan institutions that can affect policy reform. Specifically, the PSO has supported efforts by the Kenyan Manufacturers Association and the Investment Promotion Centre to undertake and disseminate policy studies.

In regards to agribusiness development in particular, the CPSP dated March 1990 stated that the Mission had yet to articulate a specific agribusiness development strategy. Indeed, agribusiness projects and programs have for the most part been developed independently without any underlying theme or coordination. The current logframe was reportedly developed after many of the projects discussed above were already well into design or implementation phases. It was noted that some aspects of the PED project that do not fit into the overall Mission strategy may be dropped entirely.

8. Information Needs and Gaps

Information needs for problem identification and project design have largely been met through rapid appraisals. The Government's regular data collection efforts (e.g. farm production surveys, rural household surveys, and compilation of macroeconomic data) offer little more than statistics on basic production patterns and macroeconomic indicators. Moreover, inconsistency in government statistics across ministries and lack of timeliness in dissemination further reduces the value of the data. For purposes of analysis, collection of more specific information such as characteristics of marketing channels, participants, participant behavior, and marketing constraints required formal and informal surveys undertaken specifically for that purpose.

Design of AMP, KMDP and KEDS called for the collection of baseline data against which to evaluate project performance and impact. Some of the information required for evaluating the KEDS project, such as the value of non-traditional export earnings, is readily available from existing customs data sources. The KMDP baseline survey, which was applied to a stratified random sample of 200 farmers and 150 market women, covered a range of information from quantitative data such as quantities marketed and prices received to more

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subjective topics such as farmer perceptions of marketing constraints (See Gachagua, 1990). It is also assumed that the market information systems to be strengthened by KMDP will provide the market price information necessary to evaluate the impacts of policy reform. USAID/Kenya is also funding a separate full-time data collection and analysis activity using the Policy Analysis Matrix (PAM) as an organizing framework. A USAID-funded team of expatriate and local advisors will conduct this activity, which will provide input into the policy reform process. In contrast to KMDP (and according to a mid-term evaluation of AMP), the AMP project was well underway before baseline data were collected. Thus, the validity of impact evaluation for AMP is questionable.

Nearly all of the Mission personnel interviewed thought that the Africa Bureau could help strengthen communication flow between Kenya and other African Missions. Information on successful project approaches and updates on crop production and demand in neighboring countries were thought to be of some interest. None of the personnel interviewed had specific suggestions for the Africa Bureau's analytical agenda.

Several of the private sector participants interviewed suggested that information on domestic policy changes was lacking. Policies were not well publicized and were often unevenly enforced. A few firms felt that this lack of policy transparency was a major constraint to business. Nearly all, however, did not feel that price or market information in domestic or international markets were constraints to their current businesses. Most had their own sources of information — through long standing customer relationships or through direct observation — and were skeptical of the market information provided by other sources. All of these firms, which included fertilizer and agricultural input distributors, flower or fruit and vegetable exporters and a maize miller, were quite well established, however.

In contrast, market information may be a severe constraint to a small firm trying to expand or a barrier to entry for a new market participant. Locating a reliable buyer, particularly for fresh fruit and vegetable exports, is a costly venture and perhaps the most important obstacle for new participants. It is not uncommon for new exporters to be cheated by unscrupulous buyers. Moreover, rather than relying on established customers to provide accurate market price and condition information as well-established firms can, new participants require independent sources of information to verify that their new buyers are treating them fairly.

9. Lessons Learned

9.1 Complementary Activities

The designs of KMDP and KEDS draw on a major lesson learned from other market liberalization efforts in Africa. Specifically, **policy reform by itself does not guarantee positive private sector response to new market opportunities. Policy reform should be combined with complementary activities such as dissemination of market information (KMDP) and technical assistance to prospective exporters (KEDS) to address other constraints to private**

sector response. Whether these specific facilitating mechanisms will be effective in encouraging private sector participation, however, will not be known for some time.

The FPMRP project, which focused entirely on fertilizer marketing and policy, was affected very negatively by factors outside the scope of the project. Several fertilizer distributors interviewed stated emphatically that the single most important obstacle to development of private sector fertilizer marketing was government policy that restricted the movement and sale of maize.

9.2 The Brain Drain

In Kenya, indeed throughout Africa, much USAID funding is spent on public sector capacity building. Several projects described above have components to train government officials and technicians, or members of private voluntary organizations and an agricultural university. However, none of these projects address the longer-run issue of how public sector institutions can attract and retain well-trained individuals. Individuals who receive training often leave the public sector to assume more rewarding jobs in the private sector. Private sector jobs can pay as much as 4 or 5 times government jobs that require similar qualifications. Hence, the public sector capacity remains virtually unchanged. This short-sighted approach is apparent in the commonly used process indicators such as "number of persons trained" to evaluate capacity building activities. **The lesson is that training efforts for public sector officials should be combined with organizational/institutional changes and modifications of the incentive structure that address the issue of high turnover.** One option is to cut back on the number of redundant government employees and provide higher salaries to those that remain.

9.3 Donor Coordination

The importance of donor coordination cannot be overstated as donor aid is Kenya's major source of foreign exchange, larger than exports or tourism. The magnitude of donor aid (about 12 percent of GDP) also greatly overshadows the GOK's contribution to development. Donors coordinate relatively well in Kenya. For example, the CPSP states that donor cooperation facilitated the transformation of 38 uncoordinated projects into a more comprehensive and prioritized national program with coordinated external support. Nonetheless, the major donors do have slightly different agendas.

If they are not well coordinated, donor projects can detract from each other. For instance, USAID/Kenya would like market policy reform to proceed much more quickly than other donors would. The large size of World Bank ($200 million) and EC support ($100 million) for policy reform compared to that offered by USAID ($55 million) has reduced USAID's leverage. As a result, market policy reform has not proceeded as fast as USAID would like.

Without coordination, **donor projects often work at cross purposes**. For instance, Kenya's structural adjustment programs have called for reductions in the government deficit. At

the same time, other projects require that the Government take on new tasks or expand existing tasks. **Donor projects also clearly compete for scarce government resources.** For example, the upcoming KMDP requires the government statistics bureau to strengthen its market information system. While this is a worthy objective, shifts in donor emphasis have essentially pulled government resources away from the MIS twice since it was established in 1974, contributing to its poor condition.

9.4 Targeted Firm-Level Technical Assistance

As mentioned above, an important aspect of the Private Sector Office's approach is to provide technical assistance directly to private sector firms. Technical assistance provided under PSO projects include training, managerial assistance and credit. PSO projects have relied on Kenyan organizations, such as PVOs and local commercial banks, to act as conduits for the assistance. However, unlike policy reform, the scope of the impact of firm-level technical assistance is very narrow: only the limited number of firms that directly receive the assistance and a few other that may learn by example actually benefit. More importantly, as noted above, some firms that received managerial assistance and training under AMP had the resources to obtain it without project assistance. Hence, to maximize impact of limited USAID resources, firm-level technical assistance must be carefully targeted based on clearly stated Mission objectives.

It is also important to note that the linkages between firm-level technical assistance and the overall Mission objectives. Hence, performance evaluation of this type of approach relies largely on less reliable process indicators, such as number of firms assisted and number of persons trained. Attempts to relate overall firm income or employment to a particular firm-level intervention often require a leap of logic. Other factors, such as policy and regulatory reform or changes in the investment climate, are critical to success.

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ANNEX C

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN MALI

1. Introduction

Mali was selected as one of the 5 countries for in-depth examination for several reasons. First, it represents landlocked Sahelian and Francophone countries (which include Burkina Faso, Niger, and Chad). Second, USAID/Mali has had an active agricultural sector portfolio of projects and programs since the mid-1970s. Most of these programs have had important agricultural marketing dimensions. Third, Mali has been undergoing significant political reform and economic adjustment in recent years. Fourth, Mali's cereals marketing reform program is one of the most advanced and successful in Francophone Africa.

This annex reviews agricultural marketing dimensions of key USAID-funded projects and programs of the past decade. It discusses the following programs:

- The USAID/Mali-supported EPRP (Economic Policy Reform Program), which has complemented World Bank efforts to reduce the size of the Malian civil service and to provide employment opportunities for Malian civil servants who leave public service.

- The multi-donor supported PRMC (*Programme de restructuration des marchés céréaliers*), which has led to fundamental restructuring of the cereals board OPAM and Malian grain marketing.

- OPAM's SIM (*Système d'information des marchés céréaliers*), a market information system supported by USAID/Mali since 1988 and often cited as a model program.

- Three generations of livestock subsector projects funded by USAID since the mid-1970s.

- USAID funding of an agricultural development project in the OHV (*Opération de la haute vallée*) zone.

2. Key Indicators of Economic Performance

Mali is a poor, vast, landlocked, semi-arid/arid country whose government has recently demonstrated a strong will to reform and adjust the economy. Agriculture makes the highest sectoral contribution to GDP (46 percent in 1990). The major export crop is cotton; live animal exports also generate significant export revenues. Unlike many African countries, Malian

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	6.6	8.5	
Annual Population Growth Rate			2.5%
Urban Population Growth Rate			3.7%
Urban Population/Total Pop	16.1%	19%	
Per Capita GDP	$240	$270	
Average Annual Growth in GDP			4.0%
Inflation Rate			3.0%
Debt Service (% of Exports)	5.1%	11.5%	
Agricultural Contribution to GDP	55%	46%	

Source: World Development Report, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

cereal imports declined during the 1980s, in part because of good rainfall and harvests in the second half of the decade, and in part because of cereals policy reform.

3. Recent Economic and Agricultural Sector Reforms

In early 1991, a violent, popular uprising resulted in the overthrow of the 23-year old administration of Moussa Traoré. Since March 1991, Mali has started an unprecedented democratization process. Power-sharing, democratic pluralism, and free press have created considerable anticipation and high expectations throughout the country. The Mission supported this process by financing national conferences and debates, as well as management and organizational training for many of the new democratic and professional organizations.

The transitional government renewed Mali's commitment to economic reform and the principles of market-driven economic growth, despite mounting pressures to postpone reforms and increase government spending. The Mission notes that "a major step toward better public accountability was taken when the *Contrôleur général d'état*, the equivalent of the Inspector General, was given Ministerial and autonomous status, with a mandate to investigate corruption and improve the management of public resources." USAID/Mali encouraged these steps by providing financial support through the new Financial Management and Training Project.

Under this new impetus, policy reforms designed under Moussa Traoré's regime are being implemented. The State is effectively loosening its grip on agribusiness. Government

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agencies now play a facilitating rather than an implementing role in exporting agricultural commodities. A new generation of young and educated, though capital-poor, entrepreneurs is emerging, sensing that the new policy environment offers potential for agribusiness development. Young, educated people also recognize the fact that formal training no longer guarantees public sector employment.

4. Agricultural Marketing and Agribusiness Programs and Projects in Mali

This section reviews USAID/Mali's programs and projects and briefly discusses similar activities by other donors in Mali (World Bank, France and Canada).

4.1 Review of USAID Mission's Programs and Projects

Seven USAID programs and projects deal to a lesser or greater extent with agricultural marketing and economic reforms: (1) the economic reform program, (2) cereal marketing reform, (3) cereals market information, (4) cereals marketing reform credit component, (5) livestock projects and programs, (6) agricultural development in the OHV, and (7) micro and small enterprise development.

4.1.1 The Economic Reform Program

Mali's recent improvements in agricultural sector performance need to be viewed in the context of economic reform. USAID/Mali has provided leadership and funding for civil service reform under the EPRP (see A.I.D. Impact Evaluation Report No. 74, 1990). Launched in September 1985, EPRP contained two key components:

- Fiscal and regulatory reform to improve private sector incentive; and
- A budget restructuring program designed to increase the ratio of nonpersonnel recurrent cost outlays to outlays on personnel.

Key achievements due in part to the fiscal and regulatory reforms are as follows:

- Decontrol of prices;
- Reduction in a number of business taxes;
- Introduction of a new commercial code; and
- Loosening of restrictions on import and export trade.

Principal elements of the budget restructuring component included the following:

- Adoption of a new, improved system of budget classification;
- Computerization of the government payroll;
- Budgeting for and achievement of an increase in non-personnel recurrent cost outlays (supplies and maintenance) relative to the wage bill;

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- Establishment of Government hiring ceilings; and,
- Design and implementation of a program of voluntary early retirement for civil servants willing to give up their civil service tenure in return for funding intended to establish them in the private sector.

According to A.I.D. Impact Evaluation Report No. 74, the Mali EPRP has had a favorable impact over the short term, but the reform program was highly specific and limited in scope. EPRP needs to be viewed in the context of a broader, multi-donor public sector reform effort that has been underway since structural adjustment programs were put in place in 1982.

The Policy Reform for Economic Development (PRED) Program (1992-1996), which replaces the EPRP, will be part of such a broad effort supported by the World Bank, the International Monetary Fund and other donors to monitor and foster reforms in support of the GRM's fiscal, regulatory, institutional and economic reform program. The goal of PRED is to support private sector-led, sustained economic growth by reducing the tax burden on, and government interference with, the private sector. It provides non-project assistance to the GRM in the elimination of export taxes and support of other reforms that create conditions supportive of market-oriented economic growth. Its project component will assist the Ministry of Economy and Finance in improving the role of government entities, such as the Directorate of National Economic Affairs (DNAE), as fully supportive of market-driven, private sector growth, and in establishing commercial courts.

4.1.2 Cereals Marketing Reform

Key features of PRMC policy and program reforms and initiatives during the 1980s included the following:

- Legal recognition of private, informal trade in coarse grains.
- Removal of interregional coarse grain movement restrictions on grain shipments.
- Restructuring of the *Office des produits agricoles au Mali* (OPAM) and a shift in its mandate and functions from a grain trading organization and statutory monopoly to a public sector market-facilitating agency.
- Establishment within OPAM of a limited strategic grain reserve.
- Provision of financing and technical assistance for establishment of a grain market information system (SIM) (especially for coarse grain) and broad dissemination of consumer prices in key national grain markets.
- Creation of a marketing credit program targeted to urban-based wholesale grain traders, with the intent of expanding liquidity and providing working capital for medium-term grain storage.
- Exploration and identification of market opportunities for coarse grain exports following surplus crop years and provision of credit to selected exporters.
- Legal recognition of the private trade in paddy and polished rice, as well as consent for a private sector dehulling industry to emerge in paddy-growing zones.

- Orchestration of better donor cooperation in identifying food aid requirements and coordinating food aid shipments.

A program related to the PRMC, but not funded by it, is the investment in a greatly expanded and improved GRM capacity to identify emerging grain production shortfalls and food needs, called the *Système d'alerte précoce* (SAP) or early warning system. UNDP investments in more reliable and consistent forecasting of crop production have also been independent of the PRMC. Finally, the Famine Early Warning System (FEWS) project, funded by USAID, has provided technical assistance to the SIM as well as informing donor and government officials of impending food shortages in drought-prone zones.

Limited funding of several initiatives in coarse grain processing has come from bilateral sources. USAID has strengthened the Food Technology Laboratory and provided support for the development and testing of an experimental parboiled sorghum product (sori). The FAC (*Fonds d'aide et de coopération*) has funded the establishment of 10 semi-industrial mills in the CMDT (*Compagnie malienne de développement textile*) zone.

PRMC is widely recognized as one of the most successful and innovative policy reform programs in Sub-Saharan Africa. This is not to say that liberalization of cereals marketing has been a smooth and painless process. OPAM purchases of coarse grain from all comers at an excessively high floor price following the 1985-86 bumper crop led to heavy financial losses. During the first year of the marketing credit program, very large-scale urban wholesale grain traders managed to capture a large proportion of the available credit. It is doubtful that this provided any additional liquidity or expanded working capital used for grain purchases (see Dembélé and Steffen, 1987).

Despite some mistakes, PRMC has demonstrated a flexibility and ability to learn from early errors and problems in programs and policy and has made strategic adjustments to move policy reform along. Part of this learning process has been due to a conscious effort by certain donors and PRMC to fund data collection and analysis that have provided an empirical foundation to monitor the impact of policy reform and to test various hypotheses about grain marketing system organization and operation. Fortunately for the GRM and the PRMC, good rainfall has coincided with policy reform during the second half of the 1980s and in 1991-92. Grain production has been above the longer trend over the past five years. The next major drought will test the durability and workability of many PRMC reforms.

Improved coarse grain processing and promotion of greater coarse grain utilization are areas of interest to PRMC, although little work has been funded multilaterally. PRMC realization of the importance of this knowledge gap, however, inspired the joint USAID/Mali and PPC/WID request for an AMIS study of coarse grain processing and utilization in Mali (see Holtzman et al., Expanding Coarse Grain Utilization in Mali: Current Situation, Constraints, Opportunities and Program Options, 1991). Key recommendations for improving coarse grain processing and expanding utilization included the following:

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- Improving the quality, storage life, and attractiveness of coarse grain products;
- Developing maize-based food products for urban consumption;
- Strengthening the testing, extension and outreach capability of the Cereals Technology Laboratory;
- Developing and funding promotional campaigns for specific coarse grain products;
- Reducing the cost and improving the effectiveness of grain cleaning and degerming technology; and
- Exploring options for semi-industrial and industrial scale coarse grain processing.

AMIS conducted mini-surveys of 58 urban households and 28 grain processing units (grinding mills and dehullers) in Bamako in November/December 1990. Key constraints facing the small-scale milling units were the design weaknesses of locally produced and imported dehullers, the high energy costs of using processing equipment (especially dehullers powered by diesel engines), the inefficiencies of batch processing of small lots of grain (individual client by individual client), and an apparent overinvestment in urban processing units, which has forced down prices charged for batch processing and lowered return on investment to a point where many operators may have insufficient retained earnings for reinvestment in new units or for payment of major repairs. Several credit programs targeting small enterprise, such as one funded by the FED, have found that many investments in urban grain processing units are not economically viable.

The AMIS study was followed by an ATI/AMIS survey of small-scale technology alternatives for coarse grain processing in higher-potential zones of Mali (see Fischer et al, 1992 and Ashraf, 1991). Rapid appraisal fieldwork and a formal survey of small-scale processing units were carried out in CMDT zones of southern Mali in September-October 1991. The ATI/AMIS study focused on technologies which reduce the labor of traditional processing or the cost of mechanized processing in both towns and rural areas. The key criterion for determining the appropriateness of processing technologies was affordability to women.

ATI found that most Malians, particularly the 65% of the population residing in villages of less than 1,000 inhabitants, do not have access to mechanized milling. Most rural Malian women, whose income averages about 500 CFA francs per week, prefer to use their meager income on priority items rather than paying for milling services. ATI also found that the scope for reducing milling costs is limited, due to technical constraints. In the medium term, it is unlikely that the 65% of the population living in villages of under 1,000 people will have access to, or be able to afford, motorized milling services.

ATI recommended several options. Time required for traditional, manual processing can be reduced by 25 to 30 percent by adding a steel disk to the tip of the pestle. Another option

is promoting animal traction mills in rural areas as a way to eliminate fossil fuels. Finally, the efficiency of fossil fuel-powered, motorized mills could be increased by using an ATI prototype bran-discharge hammermill. This mill is a portable unit that dehulls, winnows and grinds grain in one processing run at nearly the same efficiency as milling alone.

4.1.3 Cereals Market Information

Since early 1988, the Food Security in Africa Cooperative Agreement (FSA/CA), co-managed by USAID/S&T and the Africa Bureau of AID/W, has been working with OPAM, the Malian national cereals board, to establish the first public market information system on cereals marketing (SIM). The SIM was established in a highly systematic, incremental, and carefully planned fashion. Initially, Nango Dembélé, a Malian national trained in agricultural economics in the U.S., and Philip Steffen undertook a survey of all the local institutions that collected some form of cereals market information (including agencies distributing food aid), and they assessed the information needs of different prospective users of the SIM. A *Système d'information transitoire* (SIT) was created for an interim phase of six months, which featured harmonization of the data and methodologies of three different groups—OPAM, CIDA, and MSU-CESA—collecting price data at different levels of the marketing system. A prototype bulletin was produced for limited distribution to technical specialists in the Government and donor community. Feedback on the bulletin, as well as periodic input from expatriate consultants, helped shape and improve the market information system.

The SIM releases market information in three different formats and varying levels of analytical depth: weekly price reports, monthly discussions of price movements, and semi-annual analyses of price trends and supply and demand factors affecting price movements. The weekly price data are disseminated in printed form to policymakers and analysts and by radio broadcasts and newspapers to other users.

Several factors are responsible for the success of the SIM. First, it was organized and designed by Malian professionals, who were well-trained in price and market data collection and analysis, and who were working within public agencies (CESA, OPAM). Second, the Malian analysts were supported by a USAID-funded project, FSA/CA, committed to long-term training and institutional strengthening in Africa. Third, the design of the market information system was very effectively informed by three years of original applied research on cereals production, marketing, and prices carried out by Malian researchers (Josué Dioné and Nango Dembélé) in collaboration with FSA/CA. Not only did this create an excellent knowledge base and training experience, but it provided a long enough period for refining data collection concepts and methods and strengthening local capacity for collecting, processing, analyzing, and disseminating the results of analysis of cereals marketing data. Fourth, the effective dissemination and extension of applied research results of the Malian (CESA) and FSA/CA grain production and marketing studies generated demand among government analysts and policymakers and donor agencies for empirically-informed policy research and analysis. Fifth, the designers of the SIM were careful to develop a system that satisfied the key needs of major users but did not outstrip the fledgling institutional capacity of the local analytical unit to respond.

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Designers of the SIM caution against the "paradox of success" (see Dembélé and Staatz, 1989). The heavy and diverse demands for available data and new information that a successful market information system can generate may seriously compromise its original mission. Responding to new requests for data and analysis may lead to neglect of demanding yet necessary management of ongoing data collection, processing, and analysis, which could result in lower quality raw data and analysis, as well as less timely dissemination. Hence, managers of market information systems need to be careful to avoid expanding the scope of their efforts and taking on burdensome special projects before additional staff are hired and trained.

A final critical point is financial support for market information systems. In an ideal world, analysts would design systems which local government agencies could easily sustain. In the African context of tight budgets and slow economic growth, the reality is that donor agencies will need to supplement limited local budgets for market information systems for quite some time. FSA/CA believes strongly that this is one use of scarce donor resources with a very high payoff in terms of informing policy analysis and strengthening local capacity to do effective, empirically-based policy research and extension (see Weber et al., 1988).

A common pitfall in creating market information systems in developing countries is overdesign leading to the collection of too much data in too many markets or at too many levels of the system. In addition, a market information system may try to respond to too many requests for information, especially where external funding tends to drive research agendas. In initially establishing a market information system, analysts need to be sensitive to local needs for and uses of data, and to design a system which meets most of them at minimal cost. Furthermore, design of a modest system, which the government and/or other local users are likely to fund once donor support is phased out, is preferable to designing a more ambitious scheme that requires indefinite external funding.

One general lesson for MIS design is that prospective users need to be consulted about their information needs and preferences before a system is implemented. A second lesson is that MIS design needs to be carefully tailored to specific commodity groups. Concepts and a data collection system that might be workable for cereals may not be well-adapted to livestock or horticultural products. A final lesson is that designers of MIS need to undertake systematic assessment of the institutional capacity of local agencies to respond to different users' needs. In some countries where funding is restricted and only a modest investment in SIM is likely to be sustained, designers of MIS will need to make tough choices about whose information needs are of the highest priority and therefore must receive attention, and whose needs cannot be met in the short to medium term.

4.1.4 Cereals Marketing Reform Credit Component

The cereals marketing reform credit component, started in 1988, provides credit through the PRMC to entrepreneurs, farmer groups and traders. The credit program aims to increase traders' ability to take advantage of the liberalized cereals market by buying surplus stocks of grain in larger quantities than in the past. It was assumed that this would enable traders to store grain across seasons rather than having the Government provide interseasonal storage at higher cost. Farmer groups could also purchase grain from farmers at fair prices shortly after the harvest, when their cash needs were greatest, and sell the grain from storage months later when prices were seasonally higher. Several problems emerged in the early years of this project. First, the initial loans were captured by the largest and probably least needy traders and entrepreneurs. The equitable distribution of credit funds in the first year was thus compromised, and subsequent efforts were made to distribute these funds more in line with the original intent of the program. Second, questions have been raised as to whether the credit was even used for the intended purpose of purchasing of cereals in quantity for storage.

Third, the assumption that prices would fluctuate enough to make long-term storage of large amounts of commodities profitable was based on price fluctuations occurring in 1984-85, when drought conditions caused producer prices to vary sharply across seasons, particularly in deficit areas. Since 1984-85 grain production has been fairly stable, and prices have not fluctuated as much as predicted. Thus, traders who purchased larger grain stocks than their normal, quick turnaround quantities were faced with interest costs (opportunity cost of grain tied up in storage), as well as high storage charges and grain losses that were <u>not</u> covered by higher prices at point of sale. The farmers groups encountered similar problems in that many purchased grain from their members at artificially high prices immediately after harvest, believing that prices would increase later in the year. They were thus faced with high-priced stocks that could not be marketed without loss. The credit organization faced the dilemma of writing off the loans or purchasing the grain from stricken owners and hoping to sell it at a price which would offset their costs (Cook, 1989). The Malian Government took several measures to remedy the problem. It allowed traders more time to pay back loans, eliminated export taxes (previously 8 percent), and actively promoted grain exports to neighboring countries through subsidies on price (CFAF 10/kg) and rail transport to Senegal (50 percent and 25 percent subsidies on the Malian and Senegalese portions).

The line of credit for cereals storage closed in 1990-91. Small traders are now encouraged to form groups (between 3 and 10 members) and deposit funds as a mutual guarantee to gain access, through private banks, to the *Banque centrale des états de l'Afrique de l'Ouest*'s (BCEAO) special line of *crédit de campagne*. This credit is offered at prime commercial annual rates of 12 to 16 percent per annum. Larger traders may negotiate individually with private banks to gain access to the BCEAO special line of credit.

4.1.5 Livestock Projects and Program

USAID/Mali has provided assistance to the Malian livestock subsector since 1974 and is funding a third subsectoral project (called the Animal Productivity and Export Project or APEX), which began in FY 1992 and will run for six years. One important legacy of USAID's projects has been the promotion of cattle fattening (*embouche*) in the region around Bamako (the OHV zone). Although the credit program funded by USAID under Mali Livestock I had a mixed record, it had a valuable demonstration effect on Malian livestock producers. Many farmers have spontaneously taken up small-scale commercial fattening of livestock, both cattle and sheep, as a dry-season, income-generating enterprise. The credit program demonstrated that this or off-season fattening activity was profitable when well-managed, and its legacy is that fattening is now widely practiced around Bamako and in cotton-growing areas of southern Mali. In fact, quite a few export grade cattle and sheep are fattened under semi-intensive production systems. As the supply of high-quality livestock feed expands during the 1990s, due in good part to expansion of maize cultivation under Mali Sud III (funded by the World Bank), fattening enterprises will increase in number. A key question to answer is how deep is the market (both domestic urban and Ivorian) for higher-grade, well-fleshed animals. Since Ivorian incomes are likely to stagnate over the medium term (through the mid-1990s according to Bank projections), export demand for higher-grade livestock may not be sufficiently buoyant to stimulate widespread fattening for export. Domestic urban population and income growth may prove that Mali is the more attractive medium-term market outlet for intensively produced livestock.

The APEX project follows a "monitorable *filières*" (subsector) approach in providing significant resources toward improving livestock subsector productivity through better management of natural resources, increased animal fattening potential through better credit schemes, improved animal health, and reduced costs in the marketing of beef in Bamako, livestock exports to traditional and new markets, and hides and skins exports. Low rates of credit reimbursement, partly because relatives of government officials were among the principal beneficiaries, had caused the demise of previous *embouche* programs in Mali. APEX's credit program will be modeled on CLUSA's (Cooperative League of the U.S.A.) successful approach, which helped producer groups in OHV gain direct access to commercial credit, with gradually diminishing government guarantees. In export marketing, APEX will devote resources to increase the efficiency of the marketing system through the reduction of transport costs and informal taxes. APEX could make one of its biggest contributions by identifying potential new markets; small ruminants could be exported during the Islamic holidays to North Africa and year-round to Saudi Arabia. If the EEC stops dumping powdered milk, import substitution will become economically profitable for eggs, poultry and milk.

Meanwhile, the Mission has been actively encouraging a partnership between a U.S. firm and *Tanneries du Mali* (TAMALI), the hides and skins parastatal that is being privatized. AMIS analyzed the potential for a meat processing plant, including a small tannery component (see Redenius et al., 1991). A USDA agribusiness consultant further discussed privatization of TAMALI with the Public Enterprise Commission in charge of privatization. The Mission arranged for a U.S. firm, Ward Enterprises, to visit the facility and hold discussions with

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government officials and TAMALI's management. Subsequently, samples of hides and skins from TAMALI were sent to Ward Enterprises in the U.S. for analysis to determine their quality. Ward Enterprises plans to produce 2,000 processed skins a day. To help the firm make a final decision regarding investment feasibility, USAID/Mali made plans, through a buy-in to the AID/W Market and Technology Access Project (MTAP) II, to fund the following feasibility studies:

- Engineering design and cost study for a water treatment plant;
- Source, quantity, and purity of water available;
- Detailed financial and economic cash flow analysis; and
- Analysis of technical assistance for management of TAMALI.

It appears, however, that Ward Enterprises would have to submit to full and open competition to bid for TAMALI. If bidding goes according to plan, Ward would have to commit itself before the feasibility studies would be completed.

The Mission foresees U.S. university participation in improving animal health care and production systems. The proposed investments in research and extension assume that domestic and Ivorian market opportunities will be attractive during the 1990s and justify production investments. The Mission bases this assumption on the work of Kulibaba and Holtzman (1990) and informal discussions with them during the course of the livestock trade facilitation work funded by A.I.D. and the World Bank (see Holtzman, Kulibaba and Stathacos, 1991).

According to USAID/Mali, other key achievements of Mali Livestock I and II are as follows:

- Under Mali Livestock II, studies and policy dialogue were instrumental in convincing the Malian Government to lift restrictions on private veterinary practice and to divest the parastatal veterinary pharmacy (PVM). The PVM has been self-supporting for about two years.

- Investment was made in the Central Veterinary Laboratory, whose facilities, staff, vaccine production and diagnostic capabilities are among the best in Africa.

- Assistance was provided in the drafting of laws and codes that now regulate private veterinarians, wholesalers, and consultants. Gaining a legal status helped the National Association of Veterinarians (*Ordre national de la profession vétérinaire*) get access to credit to its members. The Association has recently approached the Mission to help draft regulations that would help clarify the role and responsibilities of the state vis-a-vis the new industry.

The cereals SIM (*Système d'information des marchés céréaliers*), an important component of the multi-donor funded Cereals Market Restructuring Program (PRMC), should provide very useful lessons on how to design, organize, and implement a market information system for the

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livestock subsector. The institutional home of such a system remains in question, given the weak performance of OMBEVI (*Organisation malienne du bétail et de la viande*) in recent years. OMBEVI collects data on arrivals and sales at livestock markets, the breed and sex of cattle and small ruminants offered for sale, and prices paid for different categories of livestock, and it prepares monthly reports that present the data in tables. There is, however, little analysis of the data and no attempt to examine key variables in time-series.

Under the Agricultural Marketing Improvement Strategies Project (AMIS), the Sahel West Africa Office of A.I.D.'s Africa Bureau (AFR/SWA) has supported field research on livestock marketing in the central corridor of West Africa, defined as Mali, Burkina Faso, and Côte d'Ivoire. The Sahel West Africa Office also provided most of the funding for the joint World Bank-A.I.D. work on livestock trade liberalization in the central corridor (particularly the May 1991 field visits to the three countries in the corridor). The A.I.D.-funded fieldwork has focused on quantifying livestock marketing costs for representative trading enterprises (and itineraries), and on identifying and diagnosing official and unofficial barriers to trade in the central corridor. The two documents which summarize key findings of the AMIS fieldwork include Liberalizing Livestock Marketing in the Central Corridor of West Africa (Holtzman and Kulibaba, July 1991), and Livestock Marketing and Trade in the Mali/Burkina Faso-Côte d'Ivoire Corridor (Holtzman, Kulibaba, Stathacos et al., June 1992).

The AMIS studies of livestock marketing performance in the central corridor were not initially labelled agribusiness studies, but they have focused on the constraints facing the private livestock trade. The Sahel-to-coastal West Africa livestock trade is a key feature of intra-regional trade in West Africa, generating significant employment and export revenues for producers, traders, and transporters in Mali, Burkina Faso, Niger, and Chad. The intra-regional livestock trade is organized and conducted in much the same way as it has been for the past 30 years, although important changes are underway. One major change is the decline in the proportion of livestock purchases and sales on credit, a response to the deteriorating solvency of wholesale butchers in Sahelian cities and coastal markets. The declining credit-worthiness of butchers in terminal markets in West Africa, most notably Abidjan, is due in large part to EC exporting of lower-grade chilled and frozen beef and pork at highly subsidized prices. These imports have undercut the West African regional market for fresh beef and small ruminant meat. Marketing margins and profits have been squeezed, and many traders and butchers have become insolvent or reduced the scope of their activities in recent years.

Other key constraints facing livestock traders in Mali and other Sahelian countries are as follows:

- Weak demand for fresh beef and small ruminant meat in coastal terminal markets;
- Irregular and costly transport of livestock by truck and rail;
- Unofficial harassment of the livestock trade, with its attendant delays in shipment and under-the-table payments to representatives of the uniformed services; and

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- Lack of organization of the livestock traders into effective trade associations which can lobby Sahelian (and coastal) governments for changes in policies and regulations affecting the livestock trade.

Another constraint to improved performance of the livestock trade is the lack of technological innovation in transport. Small ruminant trucking utilizes only part of the available space for shipping goods, as animals cannot be stacked and trucks are not equipped with tiers (with the exception of some trucks in Nigeria). Transport costs for small ruminants are therefore approximately double what they could be. Rail shipment of both cattle and small ruminants is plagued by excessive weight loss and mortality due to delays in shipment, poor ventilation on boxcars (used to ship cattle), and the unadaptability of gondola cars for shipping small ruminants.

4.1.6 Agricultural Development in the OHV

What began as an area development project in the 1970s is now primarily an agricultural extension project (OHV). One main objective of the *Développement de la haute vallée* (DHV) project, which follows the ten-year OHV project, is to transfer to the private sector a number of activities that had been under the responsibily of the government development agency, OHV. These activities include provision of agricultural credit, the marketing and transportation of agricultural commodities, and the distribution of farm inputs and implements.

Credit and Privatization Activities. The achievements of the project in credit and the privatization of transport services are truly success stories.

Privatization of Transport Services. Based on recommendations from feasibility studies conducted in 1986 and 1987, the project began, in 1987-88, a three-year implementation program to privatize the delivery of producers' cotton and tobacco to parastatal processing units. By the 1989-90 season, 100 percent of the cotton and tobacco were being hauled by private truckers, at a cost of approximately 45 percent lower than OHV's transport costs. The parastatal only retains a coordination role, passing information from producers to truckers for timely pick-up of farm products (G. Traoré, 1990).

Privatization of the Distribution of Farm Inputs and Implements. The OHV project also implemented a three-year program to privatize the distribution of farm inputs and implements to producers in the project area. The program emphasized the training of local blacksmiths in the assembly and repair of implements distributed by private suppliers. The training component was successful, but according to the Mission, the experiment revealed the fragile financial situation of private sector input suppliers, who face severe credit restrictions and cash flow problems. Blacksmiths are also constrained by the poor quality of raw material supplies.

Credit Program, Village Associations, and CLUSA. Most significant, perhaps, is the success with the credit program, run with the assistance of the Cooperative League of the U.S.A. (CLUSA). By March 1992 the project had achieved its target of creating 228 village

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associations (AV). Nearly all credit to AV came from commercial banks; OHV only provided emergency credit and served those producers who had yet to create an association. Project credit disbursement, already significantly reduced to 177 CFAF million in 1988, was further reduced by half (another 85 million CFAF) in 1991. During the same period, commercial credit increased by 140 million CFAF, from 231 million CFAF in 1988 to 371 million CFAF in 1991. By March 1992 more than 100 AV were dealing directly with private banks, without assistance from the project. Reimbursement rates are over 95 percent.

An important lesson from the AV experience in the OHV zone is the potential payoff from strengthening the management skills and confidence of private sector operators or their intermediaries.[1] Selected members of AV received adult literacy training and then rigorous training in enterprise decision-making and management. After a first series of loans to AVs, commercial banks became very interested in competing for business with AV. Several banks modified their operations to capture a larger share of the AV business. While access to credit has been a key element in the success of the OHV/DHV project, the ability of AV to negotiate with the government and private sector firms, particularly commercial banks, should not be forgotten.

Horticultural Production and Exports. The DHV project has assisted cotton and tobacco producers in the project area to date. Yet horticultural production is an important source of income for farmers near the Niger River, where irrigation and a high water table are major benefits. The principal horticultural export is mangoes; estimated exports, which are principally air-shipped to Europe, were over 1,200 MT in 1989-90. Green beans are also exported to Europe, while onions are shipped to other countries in West Africa. The largest exporting firm is FRUITEMA, a mixed public-private enterprise which ships some 85-90 percent of estimated horticultural exports (see Martin and Stathacos, 1990).

Although horticultural production and exports have agronomic potential in the OHV zone, producer cooperatives are constrained in the following ways:

- Institutional arrangements with exporters have been unsatisfactory, with cooperatives assuming most of the risk, not understanding how prices are set, and feeling powerless against the limited number of buyers;
- Market information and intelligence is limited;
- Producers do not fully comprehend the stringent quality requirements of export markets; and,
- Marketing extension is unavailable.

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[1] This paragraph is taken directly, with a few editorial modifications, from written comments of Michael McGahuey of ARTS/FARA. We gratefully acknowledge his insights.

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Despite potential for expansion, horticultural exports face a number of serious constraints in Mali. According to Martin and Stathacos, the horticultural subsector is characterized by a pervasive lack of trust among subsystem participants at all stages of the export marketing chain. Quality suffers at the production level and from poor post-harvest handling practices. Access to airport cold storage was monopolized by FRUITEMA during the 1980s, discouraging entry into the horticultural export trade. While air freight capacity has expanded to meet demand, careful planning is required to utilize it more effectively. Financing appears to constrain entry into the horticultural export trade, particularly among prospective small and medium-scale firms. Exporters need large sums of working capital to provide agricultural inputs to growers and pay for transport, grading, cleaning, and packing before any revenues are generated. In the 1980s, FRUITEMA was exempted from an 8 percent export tax, which discouraged competition to a quasi-government monopoly on exports.

Martin and Stathacos recommended that USAID/Mali proceed to a full-scale feasibility study, which has been temporarily shelved. They argued that the private sector needs to be strengthened in fundamental and numerous ways to compete effectively in horticultural export markets. They call for an examination of potential for vertically integrated systems of production and marketing, including contract farming schemes and joint ventures between Malian entrepreneurs and European importers. In the short term, the AMIS study recommends that USAID/Mali focus on mangoes, French beans, and bobby beans in seasonal niche markets in Western Europe.

4.1.7 Micro and Small Enterprise Development

The GEMINI Project prepared a Mali Microenterprise Sector Assessment and Strategy in 1990 for USAID/Mali, carrying out six subsector studies, including four with some relationship to agriculture (vegetables, hides and skins, agricultural machinery and textiles). The subsector analyses were complemented by a review of the institutions supporting micro and small enterprise (MSE) development and the policy environment.

MSEs employ large numbers of Malians, especially in rural areas. According to GEMINI, more than nine governmental agencies promote, regulate and assist MSEs. Nearly $100 million of capital was provided to Malian financial institutions and donor-implemented projects to invest in promoting MSEs. Key constraints identified by the GEMINI team during the MSE assessment, as well as proposed opportunities to overcome these constraints, are as follows:

- Despite the significant resources provided to Malian banks and donor projects to support MSE development, financial intermediation is poorly developed. Much of the funds remain unused, which is evidence that the current financial system cannot deliver credit effectively to target users. GEMINI proposes that donors help to develop "creative financial products and systems to deliver these resources to very large potential markets. NGOs or other intermediate institutions will need to interface between the formal banking system and project beneficiaries."

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- Successful markets for MSE products tend to become quickly saturated as a result of rapid entry of many imitators. GEMINI argues that "donors have an opportunity to introduce new product ideas and to facilitate dynamic narket behavior among MSEs by assisting with technology transfer and creative marketing solutions that focus on product differentiation."

- Export marketing channels for vegetables and hides and skins are poorly coordinated, which undermines export potential and performance. GEMINI states that "market makers (coordinators) can "interface with large numbers of MSE participants and can serve as entry points of leverage for market-oriented interventions."

- Intermediate goods are costly, which raises production costs and limits market potential for vegetables and agricultural machinery. GEMINI proposes that "donors can enhance the quality of their interventions in technology development by integrating them into the production and marketing channels rather than developing prototypes in isolation of potential buyers."

- MSE management and technical skills are weak. GEMINI advocates "practically oriented training programs" that seek to identify key entrepreneurs who can facilitate broader transfer of skills.

- The policy and regulatory environment affects the private sector negatively in general and MSEs in particular. GEMINI states the recent change in government in Mali provides an excellent opportunity to change this. Donor and NGO projects, which are good sources of information on policy and regulatory constraints facing MSEs, need to provide information systematically to the Malian Government and donors. Mechanisms for ensuring regular feedback need to be developed.

4.2 A Selective Review of Other Donors' Programs and Projects

All major donors are part of on-going efforts to create an enabling environment for agribusiness in Mali. Examples of such efforts include the PRMC, the privatization of parastatals, and the streamlining of government agencies. Most donors in Mali have yet to address agribusiness development in a systematic and focused manner.

4.2.1 World Bank

The World Bank is conducting background studies to help set up an approach for agribusiness in Mali. A Bank expert is expected to help draw up this approach in Mali during the summer of 1992.

4.2.2 France

France was instrumental in setting up most of Mali's parastatals. For example, it helped build FRUITEMA's infrastructure and brokered a partnership with a French private company. In recent years, however, France has withdrawn its support to parastatals such as FRUITEMA and TAMALI, due to frustration over poor management. The *Caisse centrale de coopération* now concentrates its efforts on large *filières* (such as cotton and oilseeds), the rehabilitation of the Office du Niger, the rice production, processing and marketing parastatal, and financial assistance to the newly privatized tomato processing parastatal, SOMACO. France has attempted to develop the private sector by brokering deals between Malians and French agribusinesses, frequently with guarantees from the *Caisse centrale*.

4.2.3 The Canadian Support to Small and Medium Scale Enterprises Project

Since September 1990, the Canadian International Development Authority (CIDA) has supported small-scale agroprocessing projects in Bamako: grain hullers, bakeries using local cereals, and making of pasta from local cereals. The Canadian approach emphasizes small-scale enterprise development through development of processing technology, managerial capacity building, and access to credit. CIDA views Malians as astute traders but poor production managers. The goal of the project is to introduce Malian entrepreneurs to production planning and use of technology adapted to local conditions. The project assists prospective investors in identifying and analyzing market opportunities, doing feasibility studies and arranging financing. In order to qualify for this assistance, the entrepreneur must show commitment, for example, by gathering the necessary data for market analysis. Then, s/he must provide at least 35 percent of the investment capital and arrange with a private bank for a line of credit equal to 32.5 percent of the investment cost (with assistance of CIDA project staff). The remaining 32.5 percent of the investment is provided by the project. Before financing can be arranged, however, a suitable grain processing technology must be available or adaptable to Malian conditions. An engineering bureau, managed by a Canadian national with 17 years of Malian experience, helps the project to design and adapt material to Malian conditions.

The Canadian project is a mix of business planning, technology development, training of Malian entrepreneurs, consultants and bankers, and credit financing. In the future the project will train Malian financial consultants and project design engineers to provide services to entrepreneurs. An eventual second phase would finance enterprises outside Bamako. By getting banks involved and [illegible]ing bank agents, the project hopes that private banks will develop strong business ties with Malian entrepreneurs.

4.3 Approaches to Agribusiness Development in Mali

USAID/Mali's approach to improving the efficiency of the agricultural marketing system in Mali has focused on marketing policy reform, with a selective use of interventions to improve market efficiency. The Mission is working in selected commodity and livestock subsectors to improve both the policy and regulatory environment in which these products are marketed, and

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upgrade production and post-harvest handling technologies. USAID/Mali aims to lower costs to producers and market participants through investment in market information systems, improved animal health and nutrition, and improved coarse grain processing technologies. The focus on specific commodities is secondary to the functional approach that seeks to eliminate barriers common to a wider set of commodities, as opposed to those facing a single commodity system. In addition, the Mission continues to pay attention to food security, taking an approach that accounts for the GRM's concerns. This approach attempts to integrate GRM perceptions of the importance of food security into project implementation (i.e., working to reduce OPAM's role in cereals control, but not completely eliminating the rice parastatal, *Office du Niger*, and its functions), so as to provide the GRM with a safety net.

On the whole, the Mission is emphasizing efforts to improve the open market environment through policy and regulatory reform, as well as broad assistance to agribusiness firms. The unstated objective is to enable firms to respond to new, expanded opportunities resulting from the changed policy and marketing environments. The tripartied approach of the Strategic Framework, which stresses policy and regulatory reform, infrastructure development, and strengthening the skills of marketing system participants, has been applied in practice, though it is unclear that this has been USAID's conscious program strategy.

Recently, following AMIS and other studies, USAID and the U.S. Embassy have explored ways to facilitate U.S. agribusiness investments in Mali, thereby increasing trade and investment between the two countries. In coordination with the U.S. Ambassador to Mali, AFR/ONI arranged for several U.S. businessmen to meet high-level Malian government officials and agribusiness representatives during visits to the U.S. Similar visits to the U.S. are also being planned this year for three important private Malian entrepreneurs active in banking, transportation, and food processing. The Mission has attempted to facilitate a joint venture between U.S. and Malian agribusinesses in hides and skins processing and export.

4.4 Lessons Learned

Drawing general conclusions from a disparate collection of USAID/Mali-funded programs and projects is difficult. Hence, this section will draw specific conclusions about the following categories of programs: those addressing staple crops (especially grains) and reform in staple crop marketing; those addressing traditional export commodities (such as cotton and livestock); those addressing non-traditional export commodities (especially horticultural crops); and those addressing cross-cutting programs such as increased participation of private enterprises in the food system and expanding their access to credit.

4.4.1 Staple Crop Marketing

Cereals marketing reform, a major program thrust of USAID/Mali in the 1980s, continues to be important in the 1990s. The Mission invested heavily in applied research on staple crop production and marketing, mainly through the Food Security in Africa Cooperative Agreement (FSA/CA). This investment paid off by providing the empirical base to better

understand grain production constraints, producer transaction behavior, rural household food security, grain market operation and performance, and constraints to private grain trading. The PRMC Technical Committee has used FSA/CA research results continuously since 1985, when Josué Dioné initiated farm, trader, and market price surveys in OHV and CMDT areas.

The strengthening of the cereal market information system was largely a spin-off of FSA/CA, with USAID/Mali taking the initiative and collaborating closely with CIDA and FAC. The FSA/CA market price surveys were a valuable input into the design of an improved public MIS. As the role of OPAM was redefined under PRMC from *de jure* monopsony buyer of cereals to a residual buyer and manager of a national food security stock, OPAM shifted its attention to an agenda that facilitated the private sector. OPAM became the institutional home of the cereals MIS and has performed well in this scaled-back role.

As the PRMC has successfully achieved many of its cereals marketing liberalization objectives, and as the SIM has been operating effectively since mid-1988, USAID/Mali has begun to shift its attention to an in-depth examination of coarse grain processing constraints and utilization issues. AMIS, Appropriate Technology International (ATI), and MSU are examining different aspects of these questions in an attempt to provide empirically-based findings and recommendations on the scale and types of mechanized processing equipment, organization and operation of an upgraded grain processing industry in Mali, and policy and regulatory barriers to emergence of an effectively functioning processing industry. This applied research is also addressing issues of urban and rural consumer preferences and how alternative processing techniques can best satisfy them.

The key lesson learned in this ongoing, iterative process of applied research, policy and regulatory reform, and technology and institutional experimentation is that well-conceived data collection and analysis has preceded, for the most part, action interventions. Hence, USAID/Mali's program for staple crops has been empirically and analytically driven.

4.4.2 Privatization of Services and Access to Credit

To promote the increased participation of the private sector in transportation of cotton and tobacco and the delivery of agricultural inputs, the Mission's staff worked to overcome two hurdles: suspicion from private entrepreneurs who have never been permitted by officials to interact directly with producers; and resistance from these government officials, some of whom are losing power, status and monetary rewards in the privatization process. The privatization committee set up by the Mission has worked well, in large part due to the work of the Malian analyst who has managed the Mission's private sector programs since 1983.

CLUSA's approach in the organization of village associations and the Mission's close interaction with private bankers were instrumental in helping producers gain direct access to commercial credit. As anticipated, a key lesson learned from DHV's credit program is that private banks will provide credit to producer groups that show consistently higher loan reimbursement rates than those on loans to non-associated groups of producers.

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4.4.3 Traditional Exports (Livestock)

Although Mali's exports of live animals were relatively buoyant during the 1980s relative to the 1970s, increasing dependence on the Ivorian market and declining real incomes in Côte d'Ivoire are cause for concern. Furthermore, Mali lost significant market share relative to non-African exporters of chilled and frozen meat. Mali was able to expand livestock exports to Côte d'Ivoire during the second half of the 1980s as its market share was eroding. Smallholder fattening of cattle and small ruminants became more prevalent, particularly in anticipation of periods of peak Ivorian import and domestic urban demand, as the supply of agricultural byproducts expanded. The distribution of key agro-industrial byproducts, such as cottonseed cake, was inequitable during the Traoré regime, but this promises to change under new political leadership.

USAID investments in the livestock subsector have led to increased investment in smallholder fattening (though with a lag), improved veterinary and animal production research, and better understanding of Malian and Ivorian livestock marketing systems. In designing APEX, USAID/Mali has carefully considered AMIS's empirical findings on livestock trade in the central corridor. As the APEX investments upgrade Malian livestock productivity, animal health coverage, extension, and farmer-herder cooperative development, there is a need for further applied research on livestock marketing costs, credit issues, price formation and price differentials over space and time, the incidence and magnitude of informal marketing costs, policy and regulatory barriers to livestock trade, and long-term prospects for Malian livestock production (in a dynamic comparative advantage context).

USAID/Mali is considering whether to strengthen the capacity of OMBEVI to collect and analyze livestock market data. OMBEVI currently collects livestock offer and price data at a large number of markets in Mali, but little analysis is performed. Perhaps limiting the number of domestic markets and adding several markets in Côte d'Ivoire (such as Abidjan, Bouaké) would lead to a more manageable and streamlined system. It is important to remember that live animals are heterogeneous; without weighing livestock and reporting prices per liveweight, it is difficult to compare prices across markets and categories of livestock. **Prospective users of livestock price data, such as producers, traders, and butchers, need to be consulted about key design issues for a market information system before significant resources are committed to system development.** Although weighing of live animals which are not used to being handled is problematic and not accepted by market participants, it might be possible to weigh carcasses of animals slaughtered at the key data collection points to arrive at per kilogram carcass weight prices. Many livestock traders and butchers are able to estimate probable carcass weights and likely gross returns when viewing animals on the hoof.

4.4.4 Non-Traditional Exports

Many African countries are currently niche exporters in international markets for non-traditional commodities and are likely to remain so in the near future in the absence of foreign capital, technology, and market access. As high-income markets such as the EC and Gulf

countries have become increasingly competitive, less than top-quality products have no reliable markets. As European markets have become more demanding, prospective exporters need to be more selective in identifying crops and marketing windows of opportunity for exports. Latin American countries have expanded horticultural exports to EC markets in a major way during the past decade, and they ship produce during the same counterseasonal months as African exporters. Most African entrepreneurs simply lack the technical and marketing knowledge, skills, finances, and wherewithal to compete in high-income markets.

It is unlikely that generic business training programs which upgrade skills in accounting, record-keeping, business planning, and applying for loans will be sufficient to enable entrepreneurs to compete in demanding international markets. USAID should finance business tours for African entrepreneurs to the U.S., Europe, and successful exporting countries. USAID can also subsidize the travel costs of firms based in high-income countries which are willing to do reconnaissance trips to look at business opportunities in Africa. USAID missions can assist representatives of foreign private firms in arranging business meetings and visits to production, handling, processing, and storage sites.

In order to compete effectively in high-income markets, many African entrepreneurs may have to become joint venture partners of specialized firms based in developed countries. The Mission followed this targeted agribusiness trade and investment approach in attempting to arrange a joint venture between a U.S. agribusiness and a Malian tanning enterprise. Although no deal has been completed, the Mission should not abandon such an approach yet.

5. Private Agribusiness Constraints and Priorities

While a short visit to Mali in May 1992 did not permit an in-depth analysis of private agribusiness constraints and priorities, it did shed light on the most glaring ills of Malian agribusinesses in the past and today. This section discusses business regulations and unfair competition, opportunistic behavior of private entrepreneurs, breakdowns in vertical coordination, lack of capital and managerial skills, and information needs and gaps.

5.1 Business Regulations and Unfair Competition

Until recently, most Malian private agribusinesses were subject to excessive government regulations and especially unfair competition from the domination of small interest groups close to the former president's (Moussa Traoré) family and regime. Burdensome regulations, heavy formal sector taxes, high transactions costs, and the pervasive need to bribe government agents to obtain permits and access to services plagued most businesses, while privileged firms received subsidies and a competitive edge in protected markets. Widespread corruption had become routine ways for poorly paid civil servants and dignitaries to supplement their declining real incomes. For these reasons, many Malians had chosen to do business outside Mali, for example in Côte d'Ivoire, Togo, Central Africa and France. Anecdotal evidence suggests that capital held by Malian entrepreneurs outside Mali far exceeds their financial assets in Mali.

5.2 Opportunistic Behavior

Partly in response to constraints in the business environment, and partly because of the nature and tradition of Malian business people, private entrepreneurs have become astute traders and opportunistic business managers over the years. Most Malian entrepreneurs look for a quick profit on short-term deals which minimize financial exposure and risk, as opposed to the long-term business strategies that are required to forge enduring ties with suppliers and clients. Few Malian businesses are specialized. Nearly all deal in loosely defined import-export trade, willing to strike a deal whatever the commodity mix. For example, bids and tenders for goods as diverse as military supplies and agrochemicals elicit a flood of proposals from large and small businesses, many of whom are unfamiliar with the technical specifications of the products.

The new business environment created by economic reforms and the overthrow of Moussa Traoré's regime has expanded opportunities for Malian agribusinesses. But the problems resulting from excessive regulation of the Traoré era and the opportunistic behavior that was an adpative response to a restrictive business climate still linger.

5.3 Breakdown in Vertical Coordination

Lack of sufficient vertical coordination in exporting high-value agricultural commodities, which ensures timely and reliable production and shipment of high-quality products to competitive international markets, is pervasive in Mali. In the fruit, vegetable, and hides and skins subsectors, poor vertical coordination has cost Mali substantial market share and foreign exchange revenues. In addition, Malian exporters report receiving below-market prices in terminal markets; one vegetable exporter noted, for example, that Malian green beans would fetch only 9-12 French francs per kilogram at Rungis, the main terminal market outside Paris, whereas green beans from neighboring Burkina Faso would sell for 18 French francs per kilogram. In the past, most Malian exporters have paid little heed to consumers' demands, quality control, and contractual obligations to business clients. FRUITEMA is currently embroiled in a legal battle with its French importer, one of the largest fruit and vegetable wholesalers in Europe. Furthermore, air freight has always been a problem for landlocked Sahelian countries, yet many observers note that available cargo was not fully utilized because of poor scheduling and infighting among Malian exporters. Finally, there is pervasive mistrust among Malian market participants, particularly between producers and exporters, and between exporters and bankers. Exporters complain that they bear all costs of production, in providing seed, irrigation equipment and wage labor, yet they receive poor-quality produce from growers. Scores of producers report exporters owe them significant sums for deliveries of produce.

5.4 Lack of Capital and Inadequate Managerial Skills

Private businesses have always complained about the lack of credit, particularly the emerging breed of young, well-educated, but experience- and capital-poor entrepreneurs. Where credit has been available, lessons from most projects in the past, such as the livestock fattening scheme, have shown low reimbursement rates. Opportunistic behavior, again, is one cause of

the problem. Poor management and planning can also be confused with lack of credit. When opportunistic traders sign contracts to deliver goods without any prior business strategy, they often face problems that severely tax their cash flow. By failing to fulfill contract terms (in terms of quantity, quality and timeliness of delivery), these Malian traders compromise potential credit from suppliers and harm Mali's reputation as a reliable supplier in export markets. The work of CLUSA in the Mission's DHV project shows that producer groups can be assisted to better manage their business and gain credibility with private banks, thus obtaining access to credit.

5.5 Information Needs and Gaps

Part of the mistrust among market participants stems from their lack of, or unequal access to, information. The president of the *Association malienne des exportateurs de légumes et fruits* (AMELF), the fruit and vegetable export association, demonstrates a good knowledge of European market conditions. He hypothesized that strong promotion by South American exporters of brightly colored mangoes was causing European consumers to shift away from the better tasting but greener Malian Amelie mango. He reported that Senegalese vegetable producers have better access to air cargo for exporting produce, because they have entered into joint ventures with European importers, who arrange for air freight services. This businessman lacks information, however, about other potential markets such as the Middle East. Producers have even less information on export markets and may not fully appreciate the increasing sophistication and rigor of these markets. In the past some exporters may have exploited producers' lack of marketing information by offering them less than a fair reward for producing good-quality products.

The newly created association of fruit and vegetable exporters (AMELF) promises to revive the subsector. It is temporarily housed in the *Direction nationale des affaires économiques* and has access to information published by the COLEACP (*Comité de liaison Europe - Afrique, Caraibes et Pacifique (pour la promotion de l'exportation des fruits tropicaux, légumes de contre-saison, fleurs, plantes ornamentales et épices))*. AMELF is still loosely structured, however, and many of its young members are uneasy about the large size of the now privatized FRUITEMA. Although FRUITEMA suffers financial difficulties, it still dominates the export trade because of its exclusive access to cold storage at the airport. Not having collected any member dues, AMELF has yet to show a strong willingness to pay for services.

6. Agribusiness Indicators

USAID/Mali's program goal for 1990-93 is to promote economic growth; a subgoal is to improve the quality of life. There are three country trend indicators at the goal level:

- (1) Real GDP will grow at least 4 percent per year, surpassing $3.3 billion by 1995;
- (2) Per capita GDP will increase from $270 in 1989 to $355 in 1995; and,

- (3) Export of goods and non-factor services will increase from $268 million in 1989 to $468 million in 1995.

At the subgoal level, there are two country trend indicators:

- (1) Life expectancy will increase from 47 years in 1987 to 51 in 1995; and,
- (2) The literacy rate will increase from 14 percent in 1989 to 17 percent in 1995.

Three strategic objectives support the Mission's goal and subgoal:

- (1) Increase private sector participation in the economy;
- (2) Increase incomes in areas of high production potential; and,
- (3) Improve delivery of health and educational services.

For each strategic objective, the Mission's framework for an Assessment of Program Impact (API) has broad Program Performance Indicators (PPIs), as well as more specific indicators (subtargets) for each target of the strategic objectives.

The first two strategic objectives pertain to agribusiness. There are three Program Performance Indicators for the strategic objective of increasing private sector participation in the economy:

- (a) Private sector investment in the economy increases from 75 billion CFA francs in 1989 to 130 billion CFA francs in 1995;
- (b) New firms obtaining licenses in Bamako district increase from 12,500 in 1990 to 23,000 in 1995; and,
- (c) 50 new traders enter the grain trade by 1995, due to favorable marketing conditions and improved licensing procedures.

It is difficult to assess the contribution of the Mission's specific programs and projects at the level of Program Performance Indicators of the strategic objectives. Many of the API subtargets, however, may be traced directly to projects or programs of non-project assistance. Further specific recommendations on a program-by-program basis may be proposed.

6.1 Increased Private Sector Participation in the Economy

In addition to API indicators, the simplification of rules and regulations may be evaluated at the process level using the following indicators:

- Lead time between announcement of rule changes and actual implementation;

- Changes in the length of time required for exporting and importing goods; and,

- The extent to which transaction costs in complying with administrative procedures are reduced.

6.2 Market Information Systems

The effectiveness of a public MIS can be evaluated according to the following process criteria:

- Number of publicity campaigns (no. of radio broadcasts or speeches) or user education/extension programs for both public and private sector users of market information;

- Number of markets and commodities (grades or varieties per commodity) for which price data are collected;

- Speed with which price data are processed and reported;

- Medium, timeliness and frequency of dissemination outlets (printed price reports, radio broadcasts, etc.);

- Number of requests by user type for SIM price bulletins and analytical reports;

- Number of SIM seminars and workshops that analyze and interpret market information for policy-makers and private sector users;

- Number of analysts, supervisors and enumerators trained and retained in the MIS unit; and,

- Extent to which skills of MIS staff have improved in significant, measurable ways during the period of external assistance.

These process indicators can be supplemented by either structured informal interviews or periodic formal surveys of different private user groups to obtain information about their opinions of the reliability, accuracy and utility of MIS products (written, radio broadcast), as well as concrete suggestions about how dissemination of market information could be improved. Furthermore, one could assess trader awareness of public market information in either cereals or livestock. In one set of formal interviews of wholesale grain traders carried out by FSA/CA (see Steffen, 1991), traders were queried about their interest in and use of the SIM price information. They reported that the timely and reliable dissemination of cereals prices was

useful but incomplete without information on available quantities and dates of food aid disbursements.

In most cases, it is difficult to assess in a cost-effective manner the value of market information to private traders and producers (whether or not they are truly able to interpret market information well and use it more effectively in their trading decisions). A good enough indicator should be trader appreciation of the value of the government-managed MIS, not whether it leads to them making better decisions. An effective proxy for trader appraisal of the value of public market information is the strength of demand for MIS products.

Public agencies which use market information should also be asked to evaluate the effectiveness of the government-run MIS. Such an assessment would address the following questions:

- Which public agencies receive price reports or bulletins, and with what frequency do they receive reports (and with how much of a lag between data collection and dissemination)?

- How do other public agencies use this information in operational decisions (e.g., grain marketing board storage and import/export decisions) or in formulating policies and analyzing the impacts of policy change?

- Who in particular within other public agencies receives MIS outputs, and how do they assess the reliability, timeliness and quality of these outputs? Do they have any suggestions for how these outputs could be improved in terms of format, presentation style, and content?

- Is there any evidence that access to timely, reliable market information has improved the responsiveness of other government agencies to emerging food shortages, food distribution problems, or timely disposal of surpluses?

- Do other public agencies pay anything for the outputs of the public MIS? If not, would they be willing to contribute to the budget of the public MIS?

In order to evaluate the quality of public market information, in-depth investigation of data collection and processing procedures will typically be required. This can be done through interviews of MIS staff from the lowest-level enumerator to the SIM manager, as well as site visits to markets where enumerators are actually collecting price data. AMIS did this in Kenya in several markets and found a significant difference between what public agencies say they do and how they actually collect price data in practice.

6.3 Cereals Market Reform

The effectiveness of cereals market reform can be assessed in several ways. One simple indicator is to enumerate cereal traders and quantify their average volume traded (per mo./year).

The reason for asking about volume is to determine the scale on which traders operate; the desired market organization is not necessarily one where thousands of traders enter the profession, operate on small margins (with limited storage), and earn too little for reinvestment in transport, storage or processing. Over time, success of cereals reform could be measured by a decreased government food security stock. As the market deepens and responds to regional surplus/deficit signals more efficiently, there should be less need for a large public stock.

Measures of market integration, where inter-market correlation coefficients of cereal prices (or their first differences) are calculated, are another indicator of how efficiently national markets are integrated and performing. These measures need to be interpreted carefully, because high inter-market correlation may be evidence of oligopoly rather than competition.

Another quantitative measure of grain marketing efficiency is the size of marketing margins over space and time. The decline of marketing margins is an important indicator of reduced costs and greater efficiency. Care is required in interpreting margin data; margins which are too thin may represent short-term marketing at a loss, which cannot be sustained, or very limited capacity of firms to earn profits which can be invested in upgraded technology, to integrate forward or backward, and to increase scale.

Regarding OPAM management of food aid and food security stocks, successful physical management of stocks (with timely turnover) can be assessed. The timeliness of OPAM warnings to donors about impending shortages and timely/efficient distribution of food aid to needy zones/people can also be evaluated.

In looking for positive reform impacts on coarse grain processing, evidence of more wholesale traders investing in storage, processing and transportation would be one dynamic indicator of performance. More linking of trading and processing functions (adding value), and trader forward integration into processing and distribution would be indicators of a better organized and coordinated grain marketing subsystem.

6.4 Livestock

The most direct measure of increased productivity of the livestock subsector would be an expansion in exports of cattle and small ruminants. Recorded exports are estimated, however, to represent only about one-third of actual exports from Mali. Other measures are higher carcass weights of export-grade animals and higher prices paid by exporters for fattened stock. In addition to export performance measures, increased domestic slaughter and consumption of fattened animals, where urban consumers are willing to pay a premium for better red meat, would be evidence of greater domestic market depth and purchasing power. A more general domestic productivity measure would be expanded recorded slaughter of livestock, which captures some of the domestic slaughter, particularly urban slaughter. Increased output of milk and hides and skins are also important productivity measures, albeit more difficult ones to document than live animal exports and slaughter.

According to the APEX PID, the Project plans to achieve the following at the end of six years of implementation:

- Livestock producer and trader associations will improve their access to credit, marketing outlets and infrastructure, negotiate effectively with the Malian Government over regulatory reforms and their enforcement, and bargain better with other participants in the marketing chain.

- Joint ventures in livestock and livestock product processing between Malian firms and U.S. businesses will be operating.

- There will be an effective, functioning livestock market information system that disseminates information on Malian and West African market conditions and regulations to all Malian herders and traders.

- Policies and regulations that increase the competitiveness of Malian livestock exports in coastal West African markets will be operational, understood and widely accepted.

- The Malian Government will have negotiated regional trade agreements and simple operating procedures to reduce livestock marketing costs for export stock.

- There will be a consultative process between private sector groups and operators in the livestock subsector and the Malian Government regarding commercial regulations and export promotion.

- Pricing and marketing reforms in milk and feed will improve the access and production of farmers and herders.

- On the input side, private animal health delivery services will be functioning in the OHV zone (and possibly a second zone), improving livestock owners' access to services and medicines.

- Improved extension services will effectively disseminate animal nutrition and ration information to farmers and herders who will adopt improved nutritional packages.

APEX will establish a Monitoring and Impact Assessment Plan to track project performance, document project results, and assess the impact of project activities. This Plan will provide inputs into the Mission's broader API. Significant emphasis will be placed on monitoring the impact of APEX on beneficiary incomes through periodic household surveys, rapid appraisals, and national socioeconomic surveys, carried out under the World Bank's Social Dimensions of Adjustment (SDA). APEX's Monitoring and Impact Assessment Plan will complement ongoing Ministry of Agriculture, Livestock and the Environment efforts to provide regulatory and marketing information to the private sector and to track the commercialization and export of livestock products.

APEX also envisages investment in improved market information. Performance indicators could be more timely generation and dissemination of price reports to public analysts and decision-makers. Reports showing better-presented or more sophisticated analysis of data would be another measure. A performance indicator of interest to the private livestock trade would be more effective radio broadcasts of livestock market information. An unresolved issue is the respective roles of OMBEVI and Institute for Rural Economy (IER) in providing and analyzing livestock market information and in doing livestock policy analysis.

6.5 Horticultural Crops

The Mission's API does not include indicators for horticultural products. As in the case of livestock, standard APIs are expanded output, increased quality of output, expanded exports, increased quality of exports, better distribution of exports across firms, and higher returns to horticultural producers for the key export crops—mangoes, bobby beans, and French beans. A useful indicator of expanded participation in horticultural production would be greater numbers of growers. Since horticultural crops are labor-intensive, the Mission would prefer to see wide participation by small farmers in growing schemes. Another factor to monitor would be improved institutional arrangements for guaranteeing producer deliveries and reducing risks to producers and exporters. An example of an improved institutional arrangement would be enforceable contracts which provide a minimum price guarantee for producers and a minimum delivery quantity guarantee for exporters. Contracts can be designed to manage risks of price and output variability in a way that is acceptable to both producers and exporters.

7. Assessment of Priorities in Information Needs/Gaps

This section identifies the most important information needs and gaps. They include regional price data, coarse grain and livestock subsector interrelationships.

7.1 Regional Price Data

Although the OPAM SIM has upgraded cereals market information in Mali, there is inadequate information in Mali about cereal prices in key markets of West Africa. Periodically, Mali will produce cereal surpluses, which can be exported to other countries in the region (depending on the size of the cereal harvests in potential markets). A broader knowledge of prices in neighboring country markets would help provide wider options for traders as they assess their stocking and marketing strategies. Despite increasing investment by Sahelian governments and donors in market information systems in particular countries, cereals market information has not yet been disseminated effectively across countries. Traders rely on informal sources of information, which may be several days out of date, inaccurate, or incomplete.

Livestock traders in Mali would also benefit from improved market information on livestock and meat prices and supplies (i.e., arrivals) in key terminal markets in coastal West African countries. Under Mali Livestock III, USAID and the Malian Government will upgrade

price data collection, analysis and dissemination in Mali. Investment in an upgraded regional livestock market information network would be a welcome addition. Most livestock data collection efforts in Sahelian countries have been overdesigned, with data collected at too many marketplaces and for too many categories of livestock, many of which are not important in the long-distance livestock trade. A simpler and more streamlined system would be better adapted to the livestock trade. Such a system should concentrate on obtaining information on prices for export grade animals, which are typically males or steers that are at least three years old, and meat prices for 2-3 key grades of beef and small ruminant meat. CILSS has considered ways to improve livestock price collection and dissemination to assist Sahelian governments and Sahel-based livestock traders. CILSS hosted a regional workshop on livestock marketing in March 1992, where livestock market information, among other topics, was discussed. The workshop recommended a more in-depth analysis of livestock market information needs and systems in Sahelian countries.

7.2 Coarse Grain and Livestock Subsector Interrelationships

USAID/Mali is investing heavily in agricultural and livestock research over the next 4-5 years. While cereal policy and regulatory reform in Mali has been successful, heavy investment in cereal production technology could lead to overproduction, farmer dumping of grain on the market at below cost, and saturated domestic cereal markets. If coarse grain productivity expands so significantly that farmers' net returns are still higher despite lower grain prices, use of grain as livestock feed could expand.

More analysis of alternative scenarios under which the coarse grain and livestock subsectors evolve and interact would be useful. The demand for coarse grain as livestock feed is a derived demand, based on demand in Mali and export markets for livestock products. Livestock price levels in West Africa are affected by both world market conditions and regional demand patterns. Regional demand patterns are influenced strongly by income levels and distribution in different West African countries. Low (positive) or, in some cases, negative rates of projected income growth in West Africa during the first half of the 1990s does not bode well for increased red meat consumption, particularly demand for higher-quality, well-fleshed animals, which would be in part grain-fed. Demand for specific livestock products, such as beef and small ruminant meat, is also affected by the prices and availability of substitutes, such as fish and dairy products. Hence, the structure of demand for livestock products in West Africa will indirectly affect the extent to which coarse grain output can expand in Mali, and the extent to which grain can be fed to livestock. Finally, coarse grain will not be widely fed to livestock in Mali and other Sahelian countries without significant increases in cereals productivity. Unless grain yields increase significantly, Malian farmers will not be able to produce and sell grain at low enough prices to justify its use as livestock feed.

The interrelationships between the cereals and livestock subsectors are complex and require further study in quite a few African countries. From a USAID programming standpoint, an important strategic consideration is the sequence of policy changes and investments in key subsectors required to upgrade agricultural sector performance over time.

8. Toward a USAID/Mali Agribusiness Strategy and Action Plan

The Mission's strategy for agribusiness development in Mali should examine both intraregional and international demand for agricultural products that can or could be produced in Mali. Based on an analysis of demand prospects, the Mission could build on both the strengths of Mali's key subsectors and the Mission's accumulated project and program experience.

Many of Mali's agribusiness export opportunities lie within West Africa. Livestock products are an historically important generator of export revenues. While Mali's estimated livestock exports expanded in the 1980s relative to the 1960s and 1970s, Mali became increasingly dependent upon one market, Côte d'Ivoire, with most exports going to two cities, Abidjan and Bouaké. The Ivorian economy is in dire straits and growth rates are expected to be negative during the first half of the 1990s as Côte d'Ivoire undergoes draconian structural adjustment measures. Mali needs to explore livestock marketing export opportunities in other West African countries, such as Ghana and Nigeria, which were important market outlets for Sahelian countries during the 1960s and first half of the 1970s. Much of the decline in Malian market share in Ghana and Nigeria can be attributed to increasing overvaluation of the CFA franc while Ghana and Nigeria progressively devalued the *cedi* and the *naira* during the 1980s. Clearly, the issue of exchange rate adjustment needs to be pursued tenaciously in international and intraregional fora. It is probably the single most important factor undermining Malian (and other Francophone Sahelian) competitiveness in coastal West African and international markets.

Opportunities to export coarse grain to other West African countries are probably limited in the short run. Transport costs within West Africa are exceptionally high, which dampens incentives to move grain long distances. Resource endowments and climate are similar among Sahelian countries, which further restricts opportunities for grain trade. In years of good rainfall and surplus coarse grain production in Mali, harvests are also likely to be bountiful in Burkina Faso, Niger and Senegal. In other years, rainfall variability within the Sahel may permit limited grain trading opportunities, particularly in areas near international borders. Grain export opportunities to coastal West African may be more promising in the medium term, provided economic growth accelerates in Côte d'Ivoire and Ghana. As incomes rise and demand for animal protein expands in coastal countries, coarse grain could be increasingly exported as livestock feed. Domestic grain production trends in coastal countries, world market prices for feedgrain, and Sahel-to-coast transport costs will be key economic determinants of grain trade possibilities.

Exports of fruit, vegetables and other non-traditional products, including hides and skins, to international markets offer some promise, provided the issue of CFA overvaluation can be resolved. Mali will need to explore potential markets other than France and Western Europe, such as North Africa, the Middle East, and other countries in Sub-Saharan Africa. Market research is needed to determine the extent to which declining Malian market share in European markets is due to shifts in consumer preferences, exacting grades and standards, changes in

sanitary and phytosanitary regulations, changes in business and trade regulations, business savvy and skilled promotion efforts by African competitors, and poor organization and export marketing management of Malian entrepreneurs. Mali's competitive advantages also need to be reassessed in light of the profound political and regulatory changes that are sweeping the country.

In order to expand exports, especially to high-income markets, vertical coordination must improve. USAID can encourage the formation of trade associations, producer groups and cooperatives, which contribute to improved (horizontal) firm performance, as well as vertical market coordination. It is also critical to increase participants' access to market information in the agribusiness system, including producers, traders, processors, input suppliers, and bankers. Trade delegations followed by in-country workshops, directed by market specialists, can help these participants understand the requirements of consumer-driven export markets, and build trust within Mali's agribusiness community. Such an understanding would help producers not only to see the importance of extra care required in production and harvesting, but also to negotiate a fair share of the rewards. This understanding will also strengthen ties between bankers and their clients, and between exporters and producers.

The Mission's experience in working with producer groups to enhance their access to credit should be extended to trade associations in order to expand agribusiness firms' access to commercial bank credit. The Mission's attempt to broker a joint venture between a U.S. firm and a Malian agribusiness provided valuable insights. Although a deal may not be consummated at this point, such a targeted agribusiness approach should be pursued whenever the opportunity arises in Mali.

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ANNEX D

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN NIGER

1. Introduction

Niger was selected for examination in this study for several reasons. A land-locked Sahelian nation with a predominantly agricultural resource base, Niger is dependent in large part upon bilateral trade relations with coastal countries. After years of statist orientation, Niger's government has begun a process of economic policy reform aimed at liberalizing markets. USAID has played an important role in promoting policy reforms and has worked closely with the private sector in promoting improved agricultural marketing and agribusiness.

This annex discusses USAID/Niger's experience in agricultural marketing through a variety of projects and programs, including the following:

- Niger Economic Policy Reform project (NEPRP)
- Agricultural Sector Development Grants I and II (ASDG)
- Proposed Agricultural Marketing and Export Promotion Project (AMEP)

2. Key Indicators of Economic Performance

Niger's economy is primarily agricultural -- food and livestock production -- with over 80 percent of the population living in rural areas, most of whom are traditional small-scale farmers and pastoralists. The principal food crops are millet, sorghum, cowpeas, rice, onions, peppers, peanuts and cassava; livestock production consists of beef cattle, goats, sheep, camels and poultry. Production methods vary from nomadic pastoralism in the marginally-productive regions in the center and north of the country to integrated agro-pastoral production in the more productive southern region of Niger.

Food and livestock production levels vary greatly from year to year due to erratic rainfall, whether measured in volume or in geographic distribution, and Niger is vulnerable to drought. When rainfall is adequate the country is largely self-sufficient in food. Improvements in early warning systems and food aid distribution have produced at-risk populations with a margin of safety, however the nation remains prone to famine. This situated is exacerbated by demographic pressures which have led populations to move from more secure southern agricultural zones to the more drought-prone regions in the nation's interior. Given the importance of agriculture in the economy, cyclical drought conditions have had a major impact on GDP growth, which actually declined for some years in the 1980s.

While agriculture is the major economic activity in Niger, the mining sector has played an important role, especially in the 1970s when uranium exports helped to fuel economic growth. Declining export market demand for uranium continued throughout the 1980s, resulting in a much lower level of export revenues than forecast by the GON. (Nonetheless, uranium exports continue to account for approximately 75 percent of the value of total recorded exports). As a result, the government was forced to shelve its ambitious development plans and had to increase foreign borrowing, generally on a concessional basis from donors and multilateral institutions.

Other exports that generate foreign exchange include livestock (including both live animals and skins and hides), and cowpeas, mostly consisting of exports to Nigeria. Onions are exported to Côte d'Ivoire and other West African coastal countries, where they are appreciated for their quality and compete favorably with European imports. A significant proportion of agricultural export trade is carried out informally, where even large-volume traders seek to bypass rigorous government controls on economic activity.

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	5.5	7.7	
Annual Population Growth Rate			3.3%
Urban Population Growth Rate			7.7%
Urban Population/Total Pop	13.2%	19.0%	
Per Capita GNP	$440	$310	
Average Annual Growth in GDP			-1.3%
Inflation Rate			3.0%
Debt Service (% of Exports)	27.1%	24.1%	
Agriculture Contribution to GDP	33%	36%	

Source: World Development Report, 1992; World Tables, 1991.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. Economic Reforms and the Agricultural Marketing System

3.1 Evolution of the Political and Institutional Setting

Since 1991 Niger has undergone political changes that represent a radical departure from the statist orientation of the past. In order to assess prospects for reform and how they may affect agricultural marketing, it is necessary to review the evolution of Nigerien policy orientation during recent years.

Between 1974 and 1987 the government of Seyni Kountché ruled Niger through highly-centralized institutions and policies. Given the shortage of capital and technical know-how among Niger's people, officials in the Kountché regime believed that the government had a mandate to guide and control economic development efforts. Using new found uranium revenue as the financial engine of ever-expanding state control over the economy, a system of parastatal production and marketing companies were established with the goal of diversifying economic capabilities.

Until the initiation of the economic reform program in the mid-1980s, the GON (Government of Niger) participated heavily in the marketing of cereals through the *Société nigérienne de l'arachide* (SONARA). SONARA held a legal monopoly on groundnut and cowpea exports from 1976 to 1984, although most of the cowpea exports were actually marketed through unofficial or unrecorded channels. The *Office des produits vivriers du Niger* (OPVN) had a partial monopoly on internal cereal marketing and was the only legal importer of millet and sorghum. However, because of OPVN's failure to supply the market, private traders became the primary marketing agents for cereals.

Although the GON was never successful in capturing monopolistic or quasi-monopolistic control over the livestock sector, parastatals were established for the purpose of promoting red-meat exports (the *Société nigérienne pour l'exploitation des ressources animales*, or SONERAN) and hides and skins (SONITAN).

The road transportation of agro-pastoral commodities was also an area in which the GON maintained strong economic interest, through the *Société nationale des transports nigériens* (SNTN), a privileged competitor for GON and quasi-governmental contracting. SNTN and private commercial transport activity flourished during the 1970's and early 1980's, benefitting from major public expenditures to improve Niger's domestic network of highways and secondary roads.

In 1983, the GON was forced to initiate an economic stabilization program in order to reduce serious domestic and external financial imbalances. Between 1983-86 four standby arrangements were negotiated with the International Monetary Fund (IMF) in order to reduce the budgetary and the balance of payments deficits, control domestic credit, increase capital inflows and reduce external debt, and improve the performance of parastatals. The World Bank structural adjustment program was designed to support the IMF program in three policy areas:

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- **Public resource management** -- to increase efficiency and productivity of existing resources and investments.

- **Parastatal reform and divestiture** -- to increase efficiency of public enterprises and encourage private investment.

- **Agricultural policy** -- to improve the efficiency of sectoral investments (emphasis on small-scale projects, farmer participation, and rehabilitation of existing infrastructure), and reduce budgetary expenditures by limiting GON role in cereals marketing and eliminating subsidies on agricultural inputs.

Following the death of General Kountché in 1987, economic stagnation was complemented by increasing public pressures for the restoration of democratic rule and broadened civil freedoms. Following a series of violent confrontations between civilians and the military authorities in 1990 and 1991, President Ali Saibou conceded to the convening of a national convention to determine the future political direction of Niger.

The *Conférence nationale* (July-November 1991) brought together more than a thousand representatives of all segments of Niger's population. This extraordinary event succeeded not only in dismantling the apparatus of government, but also drew up a *Cahier des charges*, serving as a policy mandate for the government of transition which was put in place by the *Conférence*.[1]

The policy direction established by the *Conférence nationale* was both liberal and ambitious, covering a broad array of reforms including human rights, education, social services, the environment, and the economy. Most controversial, however, was the insistence by the *Conférence* that no future reductions be made in the size or aggregate salary mass of the civil services and that parastatal reforms be frozen. Pending the election of a new government, it is unlikely that the GON can effectively implement the *cahier des charges* due, principally, to the absence of fiscal resources.

3.2 Policy Reforms and Agricultural Marketing

Macro-level reforms supported by external donors have helped Niger to correct economic imbalances caused by external factors (particularly declining uranium prices), public mismanagement (notably of parastatals), and misallocation of resources due to onerous taxes and government regulations. Because public resource management and government intervention in the economy still limit the role of the private sector, structural reforms need to be strengthened and pursued for Niger's economy to grow. However, long-term economic development in Niger

[1] The *Conférence nationale* (a) suspended the existing constitution; (b)dissolved the national legislature and the cabinet; (c) abolished the official national political party; (d) elected a transitional prime minister, legislature and cabinet; (d) ordered that multi-party general elections be held by January 1993.

will require more than structural reforms, especially given the country's resource and human capital limitations. Political will and rigor in implementation have not always been an ingredient in the reform program, and there is a need to assist the private sector in taking advantage of the new economic environment created by liberalization and reforms.

The process of economic reform in Niger during the past five years has resulted in the adoption of specific policy measures that were intended to improve the agricultural marketing system. Liberalization measures related to agricultural marketing and pricing have included:

- the elimination or reduction of export taxes and subsidies;
- the simplification of restrictive fiscal and administrative procedures;
- the liquidation or privatization of marketing parastatals; and,
- the abandonment of price controls.

While it is difficult to assess the direct effect of reforms on agricultural marketing activity, there is evidence of expanded cowpea exports to Nigeria and that the private sector had increased supplies of agricultural inputs to farmers. At the same time, however, GON and donor estimates suggest that the past two years have seen a major increase in the volume of agricultural marketing that takes place in the informal sector and parallel markets. Given the important role of USAID/Niger programs in promoting and monitoring the impact of the above reforms, specific outcomes of reform are discussed in subsequent sections of this report.

Probably the most serious over-riding constraint on the development of agricultural marketing and agribusiness in Niger is the overvaluation of the CFA franc relative to the Nigerian *naira*. This has adversely affected the competitive position of Niger as well as other CFA zone nations in agro-pastoral exports, particularly as progressive devaluations of the *naira* since the mid-1980s have made franc zone countries high-cost suppliers to the Nigerian market. Unfortunately, Niger is a weaker member of the CFA zone community and has limited power to influence a realignment of the exchange rate. Until the GON alters its current perception that its slipping competitiveness stems from Nigeria's undervalued currency, it is unlikely to be resolved.

An additional issue which has proven difficult to resolve has been the provision of financial services and the management of institutions providing financial services to rural populations, agricultural producers and traders. Niger's principal agricultural financial institutions — the *Caisse nationale de crédit agricole* (CNCA) and the *Banque de développement de la République du Niger* (BDRN) — have been declared insolvent in recent years due to mismanagement and loan losses.

The absence of credit is an impediment to agricultural production and marketing in Niger. Though several donors have been working with the GON to reorganize the BDRN, Niger's rural

population continues to encounter chronic difficulty in obtaining credit for agricultural production and trade activities. As noted below, USAID/Niger has supported the creation of alternative institutions (cooperatives and credit unions) in order to help bridge the rural credit and savings gap.

4. Review of USAID/Niger's Programs in Agricultural Marketing and Agricultural Sector Development

The USAID/Niger 1988 CDSS identified the important long-term objectives for A.I.D. assistance as working toward increased food production, food self-reliance and increased rural incomes. The mission strategy also set medium-term objectives which included continued support for structural adjustment and policy reforms, in addition to improved resource management in agricultural and rural development.

In its most recent strategy statement (CPSP, 1992), USAID/Niger identified the goal of its programming to be to "promote sustainable market-based economic growth while emphasizing locally managed resources and reduced population growth."[2] Of two strategic objectives defined by the Niamey mission, one is pertinent to this discussion: "to increase the opportunities for sustainable agricultural production and rural enterprises."

The Mission's agricultural strategy stresses the need to identify interventions to decrease agricultural marketing costs, add value to agricultural products through processing, and increase market efficiency as incentives to increase agricultural production and revenues. USAID/Niger has also encouraged the GON to diminish its role in directing and controlling agricultural production and marketing of agricultural products, and to strengthen the role of the private sector in the national economy. Specific assistance has been provided in the form of balance of payments assistance to the GON and technical assistance and training to facilitate policy reform and stimulate economic growth.

Recognizing the need to assist the GON to carry out economic and social structural reforms and make the economy more efficient (through structural adjustment), USAID has channeled much of its programming through non-project assistance and precedent-setting hybrid programs that combine both non-project assistance and project assistance. The principal activities of this type have been the Niger Economic Policy Reform Program (NEPRP) and the Agricultural Sector Development Grant (ASDG). Since 1989, NEPRP has assisted the GON in carrying out policy and institutional reforms to foster increased exports of agro-pastoral products. Studies carried out under NEPRP, largely by the AMIS Project, have emphasized the importance of improving agricultural marketing and developing private sector agribusiness. Through ASDG, the GON received funds for agricultural development activities in return for

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[2] USAID/Niger, Country Program Strategic Plan/Concept Paper, FY 1992-1994, February 1992.

meeting conditions related to input supply, subsidies, and input pricing; cereals marketing and pricing; cross-border trade; and agricultural credit.

4.1 The Agricultural Sector Development Grant I (ASDG I)

The Agricultural Sector Development Grant I (ASDG I), 1986-1992, was USAID/Niger's principal program of intervention to assist agricultural development and improved natural resource management. The program was designed as a sector adjustment grant that allocated grant funds and technical assistance to the GON in return for GON implementation of agricultural policy reform in four areas:

- **Input supply, subsidies, and pricing** -- The objective of reform was to reduce the maximum level of subsidies on agricultural inputs in stages, to 50 percent and later to 25 percent;

- **Cereals marketing and pricing** -- The objective in this area was to abolish pan-territorial pricing for cereals and improve the management of cereals stocks by the national grain marketing agency;

- **Cross-border trade** -- The objective in this area was to reduce administrative and fiscal constraints on cross-border trade, particularly for livestock and cowpeas.

- **Agricultural credit** -- The objective of these activities was to promote the development of effective rural financial markets by supporting innovative savings and credit institutions.

The ASDG I grant agreement was signed in 1984 and stipulated that the GON would receive $29 million in local currency funds for undertaking specific reforms. An additional three million U.S. dollars were provided for resident advisors, short-term consultants, seminars and workshops, training and program evaluation. By 1987, the ASDG I had disbursed all of the local currency funds which helped the GON meet certain financial targets specified under the country's stabilization program. While ASDG II was extended until 1992, the program was decertified for a period of nearly two years, due in large part to the failure of the GON to meet conditions precedent or to provide adequate financial and management controls for the disbursement of program funds.

4.1.1 Impact of ASDG I

In spite of its operational difficulties, ASDG I achieved success in several areas:

- **Input supply, subsidies, and pricing:** The rate of subsidy on agricultural inputs was reduced to approximately 13 percent, down from a rate of 57 percent in 1984. The role of the official agricultural input supply agency has been significantly reduced and transferred to the *Union nationale des coopératives*. This agency is now in competition with other

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cooperatives and private traders;

- **Cereals marketing and pricing:** Operating losses of the national grain marketing agency have been reduced by 30 percent to 50 percent of the average 1981-83 losses;

- **Agricultural credit:** The World Council of Credit Unions has established seven credit unions in Zinder Department. A credit union law is being drafted to replace a decree providing interim legal status to credit unions. This legislation will establish the necessary legal framework for the development of the credit union movement on a national level. (Other aspects of this sectoral thrust are described below.)

- **Natural resource management:** The GON has, by decree, created the Permanent Committee on the Rural Code. This committee completed legislation to establish the principles for implementation of the *Code Rural*, which will allow authority for the determination of land use rights to devolve to the local level. The GON has also signed a decree defining and granting usufruct rights to local communities who establish a plan for the sustainable exploitation of forest resources. Another decree has been signed to create and organize a working group charged with preparation of a national-level Integrated Program of Natural Resources Management.

Under the projectized component of ASDG I, USAID/Niger is working through PVOs (e.g., WOCCU, CLUSA, CARE) and other private entities to encourage financial intermediation that will promote savings, and increase access to, and lower costs of credit, with a focus on small producers and micro-enterprises. USAID believes that such an approach, intensively managed and with a medium- to long-term institutional perspective, can have a major impact in urban and rural enterprise development in Niger.

- Under the World Council of Credit Unions (WOCCU) project, village groups are being organized into member-based credit unions. The project has established a process for promoting credit union development, particularly in terms of organization, training, and savings mobilization at the village level. The number of independent, self-managed credit unions has increased from none in 1988 (the baseline year) to seven today. It is estimated that 11 credit unions will be in operation by FY 1992. A follow-on project implemented by WOCCU will start in FY 1992.

- The Rural Organizations Development (ROD) Project, implemented by the National Cooperative Business Association, Cooperative League of the USA (NCBA/CLUSA) is seeking to expand the private sector role in rural areas through the development of viable cooperatives engaged in marketing activities. The premise for assistance used by CLUSA is that consultation and voting by

cooperative members is required before any new activity is undertaken. The number of cooperatives engaged in commercial activities increased from 70 in the baseline year (1988) to 121 in FY 1991. Literacy training has played an important role in developing management skills for cooperative members. To date, 413 individuals have received training as trainers in functional literacy, and approximately 9,000 cooperative members have received literacy training. All operational costs of the 347 literacy centers (except instructors' salaries) are now paid by the cooperatives themselves.

- CARE has initiated the second phase of its Maradi Microenterprise Development Project (M/MED) with a Specific Support Grant from USAID/Niger. This project is a follow-on to a successful pilot effort started by CARE under ASDG I and financed by counterpart funds. The purpose of phase II is to establish a fully autonomous and sustainable rural bank in Maradi to support enterprises. Technical training is provided to support this goal. The project currently provides no savings services or activities. Loans are made to credit-worthy rural people in all sectors including agriculture. Since the start of Phase II in 1991, 534 new private businesses have been started, 683 new jobs created, and 3,086 loans disbursed at the prevailing market rate. At the same time, the project has been able to maintain a 91% repayment rate as well as a 17% profitability rate.

4.1.2 Lessons Learned under ASDG I

Lessons drawn from the experience of ASDG I implementation include the following:

- **To assure sustainability of reforms, it is imperative that counterparts in policy-making positions understand the potential benefits of reform and that the majority of key host-country staff at all levels eventually understand the logic behind policy reforms.**

- **Broad-based as well as specific policy reform initiatives must contain a mechanism for accurately measuring the impact of reform so that all decision-makers can be better informed of results and trends in implementation.**

- **Certain reforms require a complement of technical assistance in order to assure the adequate provision of technical and management services during policy transition periods and afterwards.**

- **Organizational development in a variety of forms (including credit unions and cooperatives) is an effective means of delivering complementary "packages" of technical assistance to self-governing groups of beneficiaries.** The evolution of such organizations can be both rapid and well-managed, targeting discrete economic and management objectives.

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4.1.3 Proposed Approach of ASDG II

Based upon lessons learned during implementation of ASDG I, USAID/Niger has designed a phase-two program, ASDG II. This will be a $25 million grant (including $20 million for resource transfer and $5 million for technical assistance) that runs from 1990 to 1995. ASDG II is organized as a sector grant to be released in four tranches on satisfaction of policy reform conditions, and as a project component for financing technical assistance, studies, training, evaluation, and audit requirements of the program. Use of the local currency proceeds of the sector grant tranches will contribute to realization of program objectives of expanding sustainable natural resource management, providing budget support to the GON institutions working in the NRM sector, and support for community groups, NGOs or other private sector entities working in the NRM sector.

The major thrust of ASDG II is to mobilize markets, create price incentives, and encourage more rationale natural resource management. The rationale for ASDG II is based on the concept that in order for policy reform to lead to increased rural production and income, "rural citizens must have control over the land and resources which they traditionally exploit, must have access to technologies and resources from service providers which promote sustainable production, and must profit from their labors (through higher income, better standard of living)."

ASDG II also aims to strengthen the legal and policy framework for natural resource management, as well as institutions which work directly with rural producers. This objective is strongly supported by the recommendations of the Rural Development Commission of the *Conférence nationale*, which mandated the finalization of legal texts of the Rural Code and its implementation. The importance of this aspect of ASDG II is critical; it will provide legal and organizational mechanisms for resolving disputes and the disposition of rural lands and resources in a democratic fashion during a period when demographic pressures are threatening to reduce income and standards of living for rural agrarian populations.

4.2 The Niger Economic Policy Reform Program

Through NEPRP, USAID provided $13.3 million in grant funds to compensate the GON for the short-term costs of undertaking fiscal and regulatory measures to foster increased exports of agro-pastoral commodities. The program included a technical assistance and training component of $1.7 million to help the GON implement policy benchmarks and upgrade local professional skills. NEPRP also funded a number of studies to identify constraints and opportunities in agribusiness and to determine the impact of reforms suggested to the GON.

The specific targets of NEPRP were to promote:

- **Fiscal reforms**, including the elimination of export taxes on agro-pastoral products;

- **Easing of regulations and controls** that frustrate users of formal export channels, including simplification of livestock trading procedures, reduction of licensing requirements for trade, and halting new efforts to create parastatal trade monopolies;

- **Trade stimulation** through more effective penetration of sub-regional markets.

NEPRP studies, carried out by AMIS Project analysts, examined agro-pastoral subsectors in Niger and compared trade regulations in Niger and Nigeria. These commodity subsectors (livestock and meat; hides and skins; cowpeas; and onions) generate nearly all Niger's present agro-pastoral exports. The findings of commodity subsector studies were used as the basis for discussion and debate at three-day seminars which brought together agricultural producers, private businessmen and government officials and which produced non-binding action plans for subsector reforms.

The general thrust of subsector recommendations included the following:

- **Livestock** -- Simplification of official procedures for export, improvement of market information, reduction of transport tariffs, provision of incentives for investment in vehicles for the export of chilled and frozen meats, and resolution of conflicts over the allocation of pastoral resources;

- **Hides and Skins** -- Timely supply and wider accessibility of inputs, improved drying and processing facilities, better training of extension agents, revised trade regulations, restructuring of the privatized parastatals, and improved market information;

- **Cowpeas** -- Elimination of export taxes, in-depth surveys of cowpea production and marketing, market system innovations in processing and storage, and the strengthening of local research institutions;

- **Onions** -- Elimination of export taxes, staggered planting for continuous supply, storage improvements, more effective cooperatives, reduction of rent-seeking by uniformed agents, and better market information.

- **Trade Regulations** -- GON should adopt a new Code of External Commerce and emphasize better service to agribusiness; donors should continue to support the GON in carrying out reforms.

4.2.1 Impact of NEPRP

Impact of the NEPRP encompasses a wide variety of institutions and sectoral activities:

- **Regulatory Reform of Exports:** NEPRP-supported reforms have included the

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abolition of export quota requirements, suppression of export licensing costs and requirements, and the simplification of export procedures through a Chamber of Commerce-sponsored *guichet unique* ("one-stop" administrative office) in the capital and provincial administrative centers.

- **Fiscal Reforms:** With the assistance of NEPRP, the GON was able to obtain bridge-funding to replace revenue losses engendered by the suppression of export licenses and the two percent BIC withholding tax, formerly imposed on exports by customs agents at border posts.

- **Strengthening Economic Freedoms:** NEPRP played a key role in assisting the GON to draft and promulgate a "Businessman's Bill of Rights," which included the establishment of a public ombudsman/arbiter between business and government.

- **Market Information:** In the interest of promoting market development in northern Nigeria, NEPRP assisted the GON to appoint an Economic Attaché to the Niger Consulate in Kano. Reporting to the Ministry of Commerce, the Economic Attaché has provided the GON with market and currency exchange information for northern Nigeria on an intermittent basis to date.

- **Livestock Subsector:** While NEPRP successfully promoted suppression of the livestock export tax, it is impossible to estimate the extent to which this may have led to increased exports through formal channels. At present, the vast majority of livestock continue to be exported clandestinely, often with the complicity of border authorities.

- **Onion Subsector:** Suppression of the export tax appears to have triggered a three-fold increase in the volume of exports, rendering Niger onions more competitive in export markets. The introduction of a *feuillet statistique* (statistical form), introduced by the GON to collect data, however, confuses exporters and introduces opportunities for rent-seeking.

- **Cowpea Subsector:** A ban on cowpea imports by the Government of Nigeria in 1991 offset any prospective gains from increased trade in the formal sector.

A recent NEPRP Evaluation has noted that the inadequacy of accurate data makes it impossible to quantify the impact of NEPRP on export volume and earnings. While anecdotal and partial data suggest a shift from informal to formal channels for onion exports, data are inadequate to make the same claim for other commodities. Available indicators suggest some marginal gains in formal sector trade in livestock; however, there are vast discrepancies between border data and data provided by provincial authorities.

4.2.2 Lessons Learned from NEPRP

Lessons learned from NEPRP implementation include the following:

- **Government expectations of substantial new revenue over the short-term should be limited in reform programs of this type.** It is unrealistic for governments to expect rapid turn-around on gains in the volume of trade resulting from trade liberalization.

- **The process of persuading informal sector economic actors to enter the formal sector will occur in small steps rather than over the short-term.** Where informal transactions are a time-honored strategy for dealing with high official costs and cumbersome procedures, private actors will only re-enter the formal mainstream after a period of waiting and observing the sincerity of reform.

- **The economic effects of reform programs of this type require longer than three years to become observable and attainable.**

4.2.3 Proposed Approach of an Amended NEPRP

USAID/Niger has proposed an amended sector grant and project support activity for NEPRP, the purpose of which shall be to promote further policy and institutional reforms which will foster increased agro-pastoral exports.[3]

The NEPRP Amendment proposes to attack several constraints that prevent the benefits of NEPRP from more fully reaching the small producers and traders whom the program was intended to benefit. These constraints include:

- Regulatory and administrative barriers which have the effect of being quasi-official taxes;

- High transport costs and low availability of transport due, in part, to excessive regulation of commercial transport;

- High costs stemming from rent-seeking by government agents in the performance of their administrative, service and control responsibilities. These costs occur in the form of bribes and extortion;

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[3] At the time during which this document was prepared the NEPRP Amendment was in the process of official review and modification. Hence, any descriptive information on this proposed activity may be subject to further modification. No information was yet available on the proposed amount and distribution of funding.

- The absence of reliable, timely and pertinent information on export markets and opportunities.

Among the specific activities and reforms that have been proposed under the Amendment are the following:

- Drafting, enactment and implementation of laws prohibiting personal enrichment by public servants in the performance of their duties;

- Training of government personnel and establishment of credible procedures for the investigation and adjudication of illicit enrichment;

- Abolition of Niger's "economic police", agents of the *Commerce intérieur*;

- Improved public information (in local languages) regarding laws, rules, regulations, rights and responsibilities of public and private economic actors;

- simplification and reduction in the cost of procedures relating to the establishment of private commercial trucking and trading enterprises;

- Liberalization of transport pricing and/or reduction of official transport tariffs.

4.2.4 Views of Participants

The NEPRP design has been informed by diagnostic studies, using rapid appraisal methods, which have both relied strongly upon and been reflective of the views of private actors who constituted key informants for the studies. Following diagnostic appraisals of commodity subsectors, NEPRP provided funding to the AMIS Project for a consensus-building exercise to incorporate the views of private actors in prospective reform agendas. Three-day seminars have already been held to bring together producers, traders and government officials active in the cowpea, hides and skins, and livestock sectors. Each seminar has produced an action plan for subsector reform. AMIS plans to hold an onion seminar by the end of 1992.

An inherent weakness in implementation of the action plan has been the locus of responsibility for implementation: Niger's Chamber of Commerce remains a quasi-governmental organization that is vested with control, revenue collection and administrative responsibilities for agricultural marketing. Although it claims to represent the views of its members, the Chamber and its officials are accountable to the GON and are loathe to champion the sometimes radical proposals of study informants and seminar participants.

4.3 The Agricultural Marketing and Export Promotion Project (AMEP)

The Agricultural Marketing and Export Promotion Project will be a six-year activity focusing on the marketing of agro-pastoral commodities from the time crops are harvested or

animals are culled to when the products reach consumers. Funded at $20 million, the project aims to improve the efficiency of agro-pastoral marketing in domestic and export trade.[4]

AMEP's basic approach will be to 1) identify key groups of producers and other economic actors in the marketing chain; 2) work with those groups to determine strategies and resources necessary for overcoming marketing obstacles; 3) work with those groups to strengthen organizational structures and capabilities; and 4) provide technical assistance to overcome marketing impediments in such areas as cleaning, grading, storing, packaging, processing and market information.

The project proposes to work with producers and marketers of a variety of agro-pastoral products. The first commodity the project will focus on is onions because of the presence in that subsector nascent producer/marketer groups and the existence of well-established, sizable export markets.

USAID/Niger's decision to design the AMEP Project was influenced, in part, by the successful experiences that non-governmental organizations have had in Niger in working with economic actors at the local level. Political openings resulting from the *Conférence nationale* make it possible to strengthen and expand the variety and objectives of local organizations under newly-enacted Laws of Association. AMEP will seek to marry organizational techniques applied successfully in Niger by NGOs to technical assistance for the improvement of production, storage, processing and commercialization of agro-pastoral products.

The project design is also informed by the valuable understanding of constraints to improved agricultural production and marketing obtained as the result of NEPRP commodity subsector studies. Many recommendations made therein could not be implemented under existing mission programming.

4.3.1 Intended Impact of AMEP

The AMEP Project proposes to achieve the following impacts:

- Creation and strengthening of producers' and marketers' organizations and their incorporation under GON laws of association;
- Training of elected organization officers in basic accounting and record-keeping procedures;
- Visits by delegations comprised largely of private sector exporters to existing and

[4] During preparation of this document, only the AMEP Project Identification Document (PID) had been completed and approved. Project design was scheduled for early FY 1993, with implementation to begin in early calendar year 1993.

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prospective export markets;

- Improved dissemination of market information to groups and their members;

- Training and technical assistance in the creation, improvement, operation and management of cleaning, storage, grading, and packaging systems for agro-pastoral commodities;

- Improvement of basic marketing infrastructure for agro-pastoral products (including warehouses, silos, loading and transportation facilities, etc.) and participation in the management of public marketing infrastructure by producer and trader groups.

4.3.2 Views of Likely Beneficiaries

The AMEP Project was designed as a response to the views of likely beneficiaries as expressed through NEPRP-sponsored commodity subsector appraisals, conducted under the AMIS Project. The project seeks to strengthen the voice and participation of agricultural producers and traders in the management of marketing infrastructure, and in the design of policy and administrative reforms. The project takes an activist approach, which seeks to empower private actors to serve as advocates of their own economic interests.

5. Approaches to Agribusiness and Marketing Development

USAID/Niger is shifting from a marketing policy reform approach to a more functional approach which emphasizes increased efficiency of agro-pastoral marketing in domestic and export trade. Taking advantage of emerging political liberalization in Niger, the Mission is also seeking to strengthen the role of private actors in a democratizing environment.

While USAID/Niger has noted considerable success under NEPRP, such gains have taken place in a declining economic and political environment. As economic stagnation continues, the prevalence of rent-seeking behavior and administrative lassitude have created new barriers to improved agricultural marketing performance. The amended NEPRP proposes to attack several of the most difficult constraints to further development of the agribusiness sector: liberalizing the policy environment for control and informal taxation; lowering regulatory and administrative barriers to entry in the lucrative--and politically sensitive--commercial transport sector.

The approach of the Mission to supporting policy reform is changing now as more emphasis is placed on activities that represent logical follow-up to specific policy reform measures. The AMEP project will support the development of producer and trader organizations in order to improve market infrastructure and technical know-how to increase the efficiency and net benefits of agricultural marketing. The AMEP project responds to the development strategy of the GON with respect to macroeconomic stabilization (i.e., less state intervention, and

encouraging increased private sector activity in agricultural trade and investment activities) as well as to the activist mandates of the *Conférence nationale*.

USAID/Niger has learned that it must balance the firmness of its reform agenda with ever-changing political realities in the local environment, as well as it own limited ability to respond to changing political and economic circumstances in a timely manner. The stringency of conditions precedent to program and project assistance can encourage ingenious--and undesirable--responses by government and its agencies. For example, new taxes can be imposed to offset those which have been suppressed as the result of donor pressure. Informal and quasi-formal rent-seeking can infect newly-opened trade channels. Reform by fiat does not necessarily engender compliance or conscientious performance by field agents. Conditionality has its limits and, hence, must be complemented by constructive action wherein the beneficiaries of reform become actively involved in the defense of their newfound advantages and opportunities.

6. Establishing Agribusiness Indicators

Due to the lack of baseline data on percent of production marketed, marketing costs, price margins, and transportation costs, it has been difficult for the Mission to monitor the efficiency of agro-pastoral markets in Niger. For example, one target was reduced marketing costs for cowpeas, onions, livestock, and skins and hides, but no data are available on per unit marketing costs prior to reform that would allow for changes to be measured. USAID/Niger intends to develop indicators related to agricultural marketing and agribusiness from baseline data generated by the AMEP project, which will begin in early 1993.

The principal means used to assess the impact of NEPRP changes on farmers and traders has been annual surveys of farmers and traders in three major departments for agro-pastoral exports. These surveys indicate that the impact on traders has been favorable. Traders interviewed believe it is easier and less costlyto export now than before the start of the NEPRP. However, these surveys do not provide much information on the impact of NEPRP changes on farmers, since few farmers export directly and the changes brought about by NEPRP are felt principally by individuals engaged directly in exporting.

In order for baseline data to remain up-to-date and accurate, USAID/Niger has determined that computer hardware and software at the Customs Bureau would have to be upgraded. A major NEPRP-financed procurement of hardware and software is in progress. The equipment was originally expected to be in place in mid-1991, but U.S. government and USAID procurement regulations will delay the arrival until the latter part of 1992. Once the new equipment and software are in place, accurate and timely data will be readily available to assess changes under the NEPRP, and will also be easily retrievable and available for other users as well. These data will, of course, only be valid for formally-declared trade and will provide little insight regarding clandestine movement of agro-pastoral commodities across borders.

7. Information Gaps/Needs

There are information gaps and constraints in Niger at all levels. They result from a variety of factors, including:

- Overly-complex methodologies that may be little-understood by agents responsible for data collection;
- Data collection procedures which are viewed as burdensome and invasive by private businessmen;
- A high proportion of trade is conducted through informal channels as a means of avoiding official and quasi-official costs and harassment;
- Shortages of operating funds for field agents prevent them from gathering relevant data on a timely or systematic basis;
- Information provided by government agencies to the population at large is generally in written form and in the French language, neither of which are comprehensible to the majority of Niger's economic actors;
- Information is made available to the public with inadequate frequency and is often accessible only at administrative centers that may be distant from production zones and areas of important agricultural activity; and,
- While the GON has recently made laudable attempts at broadcasting market information, it provides no subsidies of its own to this activity. The information that is broadcast is judged by local traders to be overly-general, inaccurate, and irrelevant to their needs.

The Ministry of Agriculture conducts an annual pre-harvest survey of major cereals and legumes which provides official data on production, area, and yield. The data are of doubtful quality due to small sample size, missing data, and multiple reporting errors. The methodology employed to estimate areas cultivated and yields per hectare tends to overstate production levels as agricultural agents often choose farmers close to large towns and on major roads, introducing a large degree of sampling bias. USDA/ERS claims that Niger grain area and production figures are significantly overestimated and out of line with official grain production data reported by other Sahelian countries.

The survey agents who collect the data are not well-trained, tend to be overworked, and do not have adequate resources for the work at hand. Field measurements are often undertaken without compasses and measuring tapes and are thus very rough estimates of area planted. Indeed, when the degree of error is extrapolated to a regional or national level, it can become immense. Furthermore, figures for area planted, yield and production on a national level are

obtained by extrapolating from the sample data.

Utilizing funds remaining under the otherwise defunct Niger Integrated Livestock Project, the GON Ministry of Agriculture began broadcasting domestic livestock price data in early 1992. This experiment was short-lived, terminating with the exhaustion of funds less than two months after it began. Nonetheless, private traders regarded this information as inaccurate, claiming that the methodology for averaging livestock prices at regional markets was overly-general and not pertinent to their principal need: a timely measure of demand in the principal export markets of Nigeria and Benin.

There has been no national census in Niger since independence in 1960. Data on population and farm size are therefore inadequate and untimely.

Several studies have recommended the collection and dissemination of market information to agribusiness. USAID initiated collection of grain and livestock data, but the GON disseminates the information only to officials and decision-makers. The Nigerien commercial attaché in Kano, Nigeria, has started collecting trade data, in compliance with NEPRP conditionalities. This represents a new market information channel for agribusiness. However, reporting has been only intermittent and such information as may be reported is not disseminated on a wide, publicly-available basis.

Unfortunately, official trade statistics provide little information on the current situation at any time and do not provide policy makers with trend data that could be used to assess the impact of reform measures. Whether or not a specific marketing reform has resulted in an increase in official traded quantities requires accurate data. In the case of agricultural products such as cowpeas and livestock, accurate trade data would allow policy makers to analyze the impact of the elimination of the export tax.

In the absence of reliable data, rapid appraisals have been used to determine how reforms have affected market performance. Rapid appraisal methods rely on informal interview techniques and proxy variables to measure impact of specific policy reforms. It is generally assumed to be impossible to develop a random sample of traders engaging in both official and unofficial trade, as complete sample frames do not exist. Structured informal interviews can be used to develop detailed marketing enterprise budgets for representative categories or classes of traders. These budgets are not representative in a statistical sense and they may be biased by seasonal or other idiosyncratic factors. They are illustrative, however, and can usefully suggest areas for cost reduction.

The views of Niger's traders obtained under NEPRP and in the design of AMEP are unified in stressing the need for improved price and demand information for key export markets

(principally Nigeria and Benin).[5] Given the across-the-board demand for such information among Sahelian traders, the development of a sub-regional market information network should be explored. Any such effort, however, will face the considerable challenge of identifying data collection methods and reporting criteria that will be useful to Sahelian traders. The experience of USAID/Niger and the GON suggests that seemingly standard reporting criteria (e.g. livestock gender and price) may not be most relevant in African markets.

The principal impediments to export market information reporting are the costs of data collection, its communication to the media in exporting nations, and access to the airwaves. Although the electronic media may be ostensible public services funded by government, reporting is generally done only for a fee. Nonetheless, it is possible to imagine the creation of a sub-regional reporting network where information might be "exchanged" between national media organs on a daily or weekly basis.

8. Towards an Analytical Agenda

The USAID/Niger approach to agricultural marketing and agribusiness development appears to have been well-oriented to the emerging political realities of the host-country. **By focusing on reforms aimed at decreasing the costs and regulatory burdens of agricultural marketing, the Mission has demonstrated to a skeptical host-country audience that major change is politically possible and economically desirable.**

Lessons learned in Niger are applicable elsewhere in the region. Anticipated outcomes of reform may be slow to manifest themselves, particularly where skeptical economic actors are distrustful of newfound good-will and liberalism on the part of government. **Planning horizons for evaluating the response to reforms may well extend beyond two or three years.** Monitoring the response of Niger's traders to liberalization is certain to prove instructive for future reform efforts in Niger and elsewhere.

Both ASDG I and NEPRP have demonstrated that reform may also generate counter-reform; i.e., responses by government or official actors seeking compensation for economic losses engendered by reform (e.g. through the imposition of new taxes and regulations, or increased rent-seeking behavior by agencies and individuals). Under circumstances of prolonged economic stagnation in Niger, this type of response has been aggravated, manifesting itself in rent-seeking behavior and recidivism among official agencies

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[5] This view coincides with information obtained in Mali and Burkina Faso during research on liberalizing livestock commerce conducted for AID/AFR/SWA between 1989 and 1992. For further information see Holtzman, John and Nicolas Kulibaba, July 1991, Liberalizing Regional Markets for Livestock Products: An Action Plan for the Mali, Burkina Faso and Côte d'Ivoire Corridor, A.I.D./Washington, Africa Bureau, Sahel West Africa Office and the World Bank, Abt Associates Inc., Washington, D.C.

who are hesitant to accept regulatory and operational changes. USAID/Niger's efforts to tackle the problems of illicit enrichment and regulatory protection of the privileged transport sector will provide fertile ground for study of the counter-reform phenomenon.

The NEPRP approach to subsector assistance has provided valuable insights and given voice to agricultural producers and traders. However, to date, reliance upon the Niger Chamber of Commerce as a champion of reform has demonstrable limitations. This would appear to reflect the inevitable lag between political liberalization in principle and in practice. While political change in Niger has strengthened the Chamber's mandate to act as a truly representative advocate of private sector interests, organizational leadership continues to view its role as directive, rather than representative. **USAID/Niger's future efforts under AMEP and its continuing relationship with the Chamber of Commerce may well serve as a laboratory for assessing how AID can more effectively promote advocacy in environments where dirigisme constitutes the dominant historical legacy.**

Mission efforts to reduce transport costs have bearing upon all landlocked nations of the region. The taxation of vehicle fuels, taxation, registration and control of vehicles are a principal source of revenue for all Sahelian governments, in spite of the fact that consequently high transport costs are transferred directly to host-country consumers and render locally-produced goods less competitive in export markets. **Given the prevalence of this problem, it is suggested that a concerted effort by Sahelian missions be undertaken to assess the most sound policy and operational approaches to resolving this problem.**

USAID/Niger's efforts to promote alternative forms of financial intermediation to rural populations appear to have enjoyed considerable success over a relatively short period. **The success of Mission-assisted credit unions and cooperatives may well depend on the autonomous nature and self-governing character of such institutions.** The collapse of major rural credit and financial institutions in many nations of the region in recent years has enhanced the value and importance of this type of assistance. How well such institutions respond to the quasi-commercial needs of producers and traders may be ultimately demonstrated under the Missions AMEP Project.

The Niger Mission's program emphasis on natural resource management is certain to have direct bearing on agricultural marketing activities. The principle challenge to Niger in this respect is not so much the management of resources in the more productive southern region of the country, but rather the management of marginally-productive zones in the center and north which are being called upon to absorb ever larger populations. Popular decision-making with regard to resource management under the Rural Code (supported by ASDG I and II) will not be without important social and economic pitfalls. The equitable allocation of access to natural resources may not always result in the most productive use of land, water, forests and pasture. The traditional economic users of marginal resources are often also socially and politically marginalized populations (nomadic pastoralists), who are little represented in village councils or central government. The important economic contribution of livestock production and exports will be highly sensitive to the outcome of revised resource management strategies. This suggests

a need to closely monitor implementation of the Rural Code and to identify response mechanisms to protect this important critical economic resource.

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ANNEX E

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN UGANDA

1. Introduction and Background

Up until 1972, when Idi Amin came into power, Uganda was one of the wealthiest and most economically advanced countries in Africa. As a result of good soils, rainfall and two growing seasons, Uganda is endowed with a diverse agricultural production base. However, seventeen years of civil strife coupled with poor economic management shattered this once thriving economy. The NRM (National Resistance Movement) Government which took power in 1986, found that Uganda's once talented manpower base had been depleted and its physical capital destroyed. A major structural adjustment and stabilization program was required to remove economic distortions and create the incentives necessary for economic growth. Uganda's overwhelming dependence on coffee exports (80% of total foreign exchange earnings came from coffee in 1990) has led the GOU to place the diversification and development of its export sector among its highest priorities.

Beginning in 1986, USAID's focus was necessarily on rehabilitation and resettlement. By 1989, however, the emphasis had shifted to expansion of agricultural production, improved input distribution, and foodcrop processing and marketing (USAID/Uganda Country Program Strategic Plan, 1992-1996). The FY 1992 Congressional Presentation states that USAID's current strategic focus is on assisting the Ugandan Government in reforming economic policy, especially an improved policy environment for export diversification through private entrepreneurship.

Uganda was selected as one of the five countries for field work under the Africa Bureau's agribusiness study because of:

- the breadth and scope of agribusiness-related projects and programs in the Mission's portfolio;
- the agricultural potential arising from Uganda's climate and natural resource endowment; and
- the encouraging policy environment.

This annex reviews USAID/Uganda's experience in agricultural marketing and agribusiness projects and programs over the last five years. These projects and programs include the following:

- Agricultural Non-Traditional Export Promotion Program (ANEP)
- Cooperative Agriculture and Agribusiness Support Project (CAAS)
- Manpower for Agriculture Development Project (MFAD)
- Rehabilitation of Productive Enterprises Project (RPE)
- Marketing and Agricultural Research Strengthening Project (MARS)

- Policy Analysis and Capacity Building Project (PACB)

2. Key Indicators of Economic Performance

Uganda's inflation rate has declined over the past three years from over 200% a year to around 40-50% per annum by early 1992, and non-traditional agricultural exports increased from $3.7 million in 1988 to around $30 million in FY 1990 (Ministry of Planning and Economic Development). Since 1986, Uganda has made impressive progress in stabilizing, restructuring, and rehabilitating its economy. The government is reducing its role in the economy. Substantial progress has been made in economic liberalization and parastatals are being privatized or liquidated, although much more progress needs to be made to increase private investment. Despite declining prices for coffee and a steep increase in oil prices, the economy has grown by 6% to 7% annually since 1987.

Key indicators of economic performance include the following:

	1980	1990	1980-1990
Population (millions)	12.6	16.3	
Annual Population Growth Rate			2.5 %
Urban Population Growth Rate			4.4 %
Urban Population/Total Pop	8.7 %	10.0 %	
Per Capita GNP	$280	$220	
Average Annual Growth in GDP			2.8 %
Inflation Rate			107.0 %
Debt Service (% of Exports)	13.2 %	54.5 %	
Agricultural Contribution to GDP	76.0 %	67.0 %	

Source: World Development Report, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. Recent Economic Reforms Affecting the Agricultural Sector

Significant policy reforms have been supported the last several years by USAID, the World Bank, EEC, UNDP and other donors. The GOU, IMF and World Bank designed a structural adjustment and economic recovery program, which was instituted in May 1987. The GOU has since liberalized the foreign exchange regime, progressively devaluing the official

exchange rate and allowing private foreign exchange bureaus to operate. New investment codes were also designed to promote more domestic and foreign investment. The marketing of tea, cotton and coffee has also been liberalized, allowing private firms to export. Additionally, export certificates and border permits have been introduced, replacing a cumbersome and time-consuming process for obtaining an export license. USAID/Uganda is playing a key role in supporting the new Uganda Investment Authority (UIA), which implements the investment code and acts as a one-stop center for investors.

With support from USAID and the entire donor community, much progress has been made rehabilitating and maintaining primary and secondary roads throughout the country. Progress continues to be made by the Departed Asians Property Custodian Board (DAPCB) in returning expropriated property to former owners, a sign of the GOU's commitment to attract private sector investment in Uganda. Donor coordination is good in Uganda, as is demonstrated by the World Bank's commitment of funds to USAID's non-traditional agricultural export program.[1]

4. Agricultural Programs and Projects

This section describes six USAID mission programs and projects concerned with agricultural marketing and agribusiness development in Uganda.

4.1 The Agricultural Non-Traditional Export Promotion Program (ANEP)

The goal of USAID's ANEP program, which began in 1988, is to support the GOU's policy reform program, which focuses primarily on increasing Uganda's non-traditional exports (NTEs). The program has three components:

- Support for policy and regulatory reforms (through its conditionality) aimed at liberalizing agricultural marketing and encouraging private agribusinesses to increase exports through official channels.

- Institution building through provision of funds and technical assistance to establish and operate the Export Policy Analysis and Development Unit (EPADU) within the Ministry of Planning, with the goal of increasing the GOU's ability to analyze and propose policy and technical solutions to overcome constraints facing the growth of non-traditional exports, as well as to design development and promotional strategies for these exports.

[1] The GOU defines non-traditional as any export other than coffee. This diverges from the more conventional, restricted definition of non-traditional, which is limited to horticultural products, ornaments, herbs, spices, and essential oils.

- A commodity import program (CIP), which funded imports of critical inputs and capital items required by producers, processors, and exporters of non-traditional exports until 1991, when it was phased out.

4.1.1 Impact of ANEP

An evaluation of this program (see Herlehy, 1991) concluded that non-traditional exports continued to grow because of the positive effects of policy reforms achieved over the last several years, including foreign exchange liberalization, a new investment code, liberalization of agricultural marketing, and regulatory reforms such as the introduction of export certificates and border permits.

Institutional support for private sector exporters of non-traditional commodities through EPADU has included:

- research and policy analysis, generating specific recommendations for policy makers;

- technical assistance to private firms through seminars and the development of an exporters' handbook providing guidelines on how to go about exporting, as well as direct assistance to specific firms; and

- operational constraints analysis undertaken by the African Project Development Facility (APDF), which provides for technical, material, and financial assistance to facilitate analysis of operational constraints encountered by individual exporters.[2]

Herlehy also found that the CIP component of the ANEP program had a beneficial impact on agribusinesses that were recipients of imported commodities under the program, as well as a positive impact on investment and maintenance of transport services which are extremely important for NTEs. The CIP component was phased out in 1991 due to the increased availability of foreign exchange since private FOREX (foreign exchange) bureaus have been allowed to operate.

4.1.2 Proposed Approach under ANEP Phase II

The Mission is designing a second phase of ANEP, extending it until 1998. While policy reform will still be an important focus of ANEP II (with continued support to EPADU and UIA), phase II will concentrate on providing direct assistance to private agribusinesses.

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[2] APDF is an International Finance Corporation (IFC) program to which USAID contributes funds.

Direct assistance to private enterprises has already begun under the Operational Constraint Analysis Program (OCAP) undertaken by the African Project Development Facility (APDF). EPADU passes on proposals from entrepreneurs to the APDF investment officer who evaluates and assists in the further development of these proposals for commercial bank funding. If more funds are needed than the commercial banks can provide, then APDF will, in some cases, provide additional grants. Through ANEP, USAID provided $700,000 to APDF. Out of 70 projects evaluated, only 10 were judged financially viable. One of the drawbacks of this program is that only projects requesting more than $250,000 are considered eligible.

ANEP II will likely include a component which allows APDF to evaluate projects valued at less than $250,000. This may be done through contracting with a PVO. However, there is concern about whether PVOs have sufficient experience with managing for-profit enterprises. Other means of directly assisting the private sector are being explored, including support to exporter associations and assistance to private enterprises through a PVO. One suggestion is to have a PVO oversee the establishment of a business (such as sesame) from production to export. Once it is operating successfully, the PVO would sell it off to the private sector.

One of the policy/institutional reforms ANEP II will support is the development of an independent export promotion agency (i.e., operating in the private sector independently of any Ministry). EPADU will remain a policy analysis unit within the Ministry of Planning and Economic Development. The goal is to eliminate the current overlapping functions of EPADU, the export promotion council (currently in the Ministry of Commerce with no private sector representation), and the investment authority, as well as better represent the views of private enterprise.

4.1.3 Information Gaps and Needs

While EPADU has undertaken some surveys of exporters and other agribusinesses, very little baseline data exist on agribusinesses in Uganda. The EPADU surveys do provide valuable information on constraints faced by exporters as well as illuminate alternative ways in which EPADU (or the new export promotion agency) can help address these constraints in the long-run. One of the issues raised in Herlehy's evaluation was the timeliness of the analysis of such information, and the need for regular follow-up surveys. No effort is currently being made by the Mission to put this data into a comprehensive, easily accessible data base. More knowledge of local private sector activities, strengths, and weaknesses is needed.

In reviewing some 70 OCAP projects, investment officers found that there is a wide disparity in level of business knowledge among private entrepreneurs. For example, only 10 out of 70 projects were judged as being financially feasible. An apparent lack of training, experience, and business acumen in the private sector implies that one important constraint is limited private sector business capability. OCAP addresses this constraint by providing technical assistance to entrepreneurs in formulating funding proposals.

The Cooperative Agriculture and Agribusiness Support Project (CAAS) is supporting a limited domestic market information system (MIS) that publishes weekly commodity prices in a GOU-controlled newspaper, which is circulated principally in Kampala. This service needs to be extended to a number of outlets (e.g., radio) so as to be accessible to more people. Intraregional and international market information is not available to exporters through public sources, and an MIS including international price and other market information needs to be developed. Information on current and projected levels of effective demand for the agricultural commodities Uganda produces is also unavailable for both regionally and internationally traded commodities.

An examination of key regional and international markets using conventional economic criteria such as volume and value traded, trends in imports, alternative sources of supply and shifts in market share is needed. Information on the absolute level of and the rate of real increase in per capita incomes, income distribution, composition of the urban population and the rate of urbanization, and exchange rates and ease of currency convertibility are also key.[3]

4.1.4 Views of Participants

AMIS recently undertook an agricultural marketing study in Uganda which focused on agricultural marketing participants' perceptions of constraints to expanding non-traditional exports (NTEs) (see Kristjanson et al., 1992). The following constraints and information gaps were identified by private sector survey respondents:

- Potential exporters are hampered by lack of export information, including information about regional markets for maize and beans, and international market opportunities for high-value horticultural crops. Poor coordination and market information are serious constraints at lower levels of the marketing chain as well.

- Most exporters reported little success in obtaining credit, even with the GOU's new export credit program (through the Bank of Uganda), which focuses on exporters of non-traditional crops.

- The continued operation of agricultural parastatals are hampering the private sector, which has limited access to storage and cleaning facilities as well as inputs. Note that government provision of agricultural inputs is inadequate.

Interviews with agricultural marketing participants confirmed that recent policy changes (i.e., liberalization) have been extremely beneficial. However, further changes are needed (e.g., parastatal divestiture and shrinking the size of government), and backsliding on policy and regulatory reform has to be prevented (e.g., possible reinstitution of controls on

[3] Urbanization is an important factor, because urban consumers will more likely buy imported, high-value commodities than rural consumers.

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cereals trade). It is also evident from interviews with producers, traders, and exporters that policy reform is a necessary but insufficient condition for inducing significant expansion in NTEs. There is still a lack of understanding on the part of the public sector of how best to provide a facilitating environment for the private sector, as well as a lack of expertise and business acumen on the part of the private sector. Further government institutional reform, and technical and perhaps financial assistance to private enterprises are needed.

4.1.5 Lessons Learned from ANEP

Lessons drawn from ANEP experience as it enters its fourth year include the following:

- **Address policy reform first, followed by investment in the private sector.** The positive impact of policy reforms is evident in talking to private sector agricultural marketing participants — projects that provided them with credit before policy reforms were undertaken were not successful. Producers obtained credit and expanded output when the only market outlet was parastatals, which lacked sufficient funds to purchase their crops.

- As the GOU changes its orientation towards regulation and facilitation of the private sector (as opposed to controlling its activities), **linkages between private and public sector institutions (as well as between public sector institutions) must be developed.** In Uganda, there are numerous examples of different donor-supported public sector institutions with overlapping responsibilities (e.g., EPADU, UIA and UEPC) and lack of communication among them. Equally important, many of these institutions do not respond effectively to the needs of the private sector.

- **The private sector has widely varying capabilities, and training in business practices for entrepreneurs who manage small- and medium-sized firms should be included as part of all projects supporting private sector agribusiness activities.** Hands-on involvement and nurturing of the local private sector is needed to overcome Uganda's history of strong public sector control over the economy.

4.2 The Cooperative Agriculture and Agribusiness Support (CAAS) Project

CAAS began in 1989 and was designed to work at the same three levels as ANEP:

- Policy reform, aimed at improving input distribution and commodity marketing;

- Institutional development, focusing on a select set of key organizations in the agricultural arena; and

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- Increased input supply through a CIP, focusing on a handful of key commodities.

The objective of the policy reform component of the project is to enhance the policy and planning capacity of three key agriculture sector organizations: the Agricultural Secretariat, the Ministry of Cooperatives and Marketing, and the Uganda Cooperative Alliance (UCA), which is the umbrella organization for cooperatives. The policy reform component provides technical assistance and training, supplies, and equipment to these organizations.

The UCA is responsible for implementing five elements of the CAAS project: policy analysis, agribusiness support, cooperative auditing/accounting improvement, cooperative education and training, and a primary (cooperative) society matching grant program.

Agribusiness development in Uganda began well before independence in 1962 and includes major investments in cotton, coffee, sugar, tea, and tobacco production and processing. From 1962-1972 both agriculture and agribusiness grew substantially. However, the political turmoil and economic instability of the 1970s and early 1980s caused a huge decline in agribusiness activity. Many enterprises were expropriated by the Government, which subsequently was unable to maintain and operate them efficiently. Output in 1980 was only a tenth or less of production in 1970 for many agro-industries.

Coffee, cotton and tobacco have been marketed through producer cooperatives and parastatal marketing boards. This is changing, however, as a considerable proportion of the coffee is now handled by private buyers. The cooperative sector is well-developed for producing and marketing of traditional crops in Uganda, and it has distributed farm inputs for many years, yet many cooperatives have experienced severe mismanagement problems. An important premise of the CAAS project is that cooperatives offer the only substantial approach to farm input distribution in Uganda.

In 1991, CAAS was redesigned to narrow the commodity focus of the program to promoting exports of coffee and non-traditional commodities and rehabilitating the edible oil industry (CAAS Project Paper Supplement). A department within the Union Export Service Company, UNEX, has been created to assist cooperatives in exporting non-traditional crops. UNEX is a subsidiary company of UCA that essentially operates as a broker or facilitator between producers and exporters. The coffee cooperatives are currently exporting through UNEX which is planning on expanding into the export of non-traditional commodities (initially grains, but also other commodities as opportunities arise).[4] USAID has provided a long-term agribusiness advisor to this company.

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[4] Note that non-traditional exports is used in the broadest possible context in Uganda. Grain exports are non-traditional in the sense that Uganda has not regularly exported cereals in the past.

4.2.1 Impact of the Activity

CAAS's original approach was found to be too broad and resources spread too thin to have a measurable impact. The revised approach, therefore, is focusing more on specific commodities such as coffee and edible oils. CAAS will also focus on a few non-traditional export crops, and limit their geographic scope. Furthermore, CAAS seeks to develop agribusiness through successful cooperatives which operate as private businesses.

As a result of the revised Cooperative Act, which sought to remove government control, the Ugandan government has reduced its involvement in cooperatives and is moving towards greater privatization. Consequently, cooperatives have expanded the marketing of production inputs and products by over 30 percent at the same time that direct government provision of agricultural inputs to farmers has declined.

The agribusiness advisor has chosen to focus initially on the development of sesame and is working with the cooperatives on the production side and a grain exporters association on the marketing side. This approach concentrates on the development of institutional linkages between exporters and producers, eliminating a multitude of middlemen. In theory, this should lower export marketing costs.

The project is now focusing less on policy reform (having succeeded in liberalizing coffee marketing, instituting a new cooperative act, and making progress on tax reforms), and more on agribusiness development. In particular, institutional reform within the umbrella cooperative organization, UCA (moving towards the UCA becoming an autonomous, independent organization), is being pursued. Institutional linkages between private sector exporters and producer cooperatives are being established to improve agricultural marketing. As a result of increasing availability of foreign exchange, due to the liberalization of FOREX bureaus, the need for a CIP program has been eliminated and the CIP was closed out.

The PL 480 program has supported the CAAS project through the generation of local currency (over 7 billion shillings since 1989), which has been used to provide credit for marketing and production. This money is made available to cooperatives for crop purchase, for example, through the Cooperative Bank. Funds are loaned on a commercial basis with the cooperatives pledging property or other assets as collateral. The Cooperative Bank has recently strengthened its management and has begun foreclosing on delinquent loans in certain instances.

4.2.2 Lessons from CAAS

The CAAS Project has provided several useful lessons, including the following:

- **The Ugandan government has to pull out of cooperative management and operations.** In the case of Uganda, it will be important to allow weak cooperatives to fail and to focus on the successfully managed cooperatives operating as private businesses and providing useful services to members. Once

the links with government are broken, cooperatives can be used as vehicles for providing funds directly to the private sector.

- **Cooperatives must operate as private, money-making entities to be successful.** Technical assistance may be needed in some instances to get things started (e.g., setting up assembly and cleaning points for sesame through the cooperatives). TA can also facilitate linkages between cooperatives and UNEX or other private sector exporters (or exporter associations).

- **Facilitating institutional and marketing linkages between producers and exporters** (e.g., by providing an agribusiness advisor) can increase the efficiency of marketing, returns to producers, and the exported quantities of agricultural commodities.

- **The importance of a commodity-specific approach to export development** is confirmed by the CAAS experience. While concentrating on a few commodities or regions should not preclude new, promising commodities, it allows a more focused approach to the assistance provided. Measuring project impact also becomes much easier.

4.3 Manpower for Agriculture Development Project (MFAD)

This project focuses on agricultural production research and the rehabilitation of the agricultural research infrastructure at Makerere University, with the goal of expanding its institutional capacity.

4.3.1 Impact of MFAD

Research sponsored by MFAD has had at least an indirect impact on agricultural output. Total national potato production has more than trebled since 1988. National bean production expanded by 13.1 percent per year between 1985 and 1990, as bean research has led to the introduction of disease resistant varieties (Country Program Strategic Plan or CPSP, 1991). New seed varieties and planting materials have been developed for cassava, sunflower, maize, and soybean. However, adoption of these new varieties is progressing very slowly. Much of the new technology is given away by MFAD staff. A recent impact evaluation of the research undertaken by MFAD indicated that farmers are not growing soybeans because of limited market demand. Farmers have adopted the new variety of sunflower seed which has a ready market, however. Hence, final product demand will ultimately determine demand for improved inputs such as seed.

4.3.2 Lessons from MFAD

The current marketing system does not provide incentive prices for higher-quality grades, standards, and varieties of crops. Farmers are therefore reluctant to pay a premium

price for seeds and new technologies. Since MFAD research has focused on production, there is little information on effective demand for these commodities and derived demand for production inputs. Market-oriented efforts to get these inputs into the hands of farmers are needed. Following the successful development of new varieties, a shift towards marketing issues is in order. **Until there is a demand from producers for better quality seeds, sustainable increases in productivity will not be achieved. Agricultural research priorities need to be shaped more by product demand considerations. Ultimately, per capita incomes will have to increase for consumers to be willing and able to pay for higher-quality products.**

4.4 Rehabilitation of Productive Enterprises Project (RPE)

The GOU plans to divest itself of properties formerly owned by non-Ugandan Asians which were nationalized by the Amin regime in 1972. The Departed Asians' Property Custodian Board (APCB) is responsible for an estimated 7,000 expropriated Asian properties.

USAID/Uganda has been providing assistance under this project to privatize nearly 600 agricultural and agro-industry properties. This project has provided foreign exchange and financing of imports required to put previously productive agricultural firms back in business, and has supplied foodcrop credit to medium and large-scale producers. The Mission has also funded a long-term advisor to assist with the implementation and management of the divestiture process.

4.5 Marketing and Agricultural Research Strengthening Project (MARS)

This is a new non-project assistance program aimed at strengthening economic research and policy formulation by linking production, technological innovation, and market demand more closely, as well as addressing the most important constraints to enhancing private sector production, processing, and marketing (Annual Budget Submission, FY 1993). It will conduct applied economic research in the following areas:

- Production economics;
- The structure, conduct and performance of commodity markets; and
- Costs and benefits of alternative private and public sector investments at the farm, market, and infrastructural levels.

This program will concentrate on training and technical assistance, attempting to strengthen linkages between U.S. universities and Makerere University.

Research areas that have been identified include agricultural marketing constraints, market information sources and uses, the structure of demand for agricultural commodities, and rural transportation linkages. One of the program's objectives is to strengthen linkages among

public sector institutions and between public agencies and private sector firms developing and disseminating agricultural technology. It has been proposed that the new project take a commodity-specific, vertical approach, based on demand analyses which take into account Uganda's comparative advantages.

4.6 Policy Analysis and Capacity Building Project (PACB)

The objective of this project is to develop Ugandan capacity for quick and accurate evaluation of development programs, and to ensure that this information reaches the decision-making levels of society (CPSP, 1992). Through this project, USAID/Uganda has commissioned studies with Ugandan firms to establish baselines for evaluating the overall impact of their program.

This project affects agribusinesses directly through its support to the Uganda Manufacturer's Association (UMA), a private association which offers services such as information and technical advice to private businesses. A.I.D.'s support is aimed at strengthening the capabilities of UMA to provide these services more effectively to its clients, including agribusiness firms such as agroprocessors.

5. Approaches

USAID/Uganda agricultural programs and projects are aimed at helping the private sector become more actively involved in agricultural marketing activities and the export of non-traditional commodities. Through the CAAS project, A.I.D. is helping revitalize the largest organized group of private farmers and marketing organizations. Policy reform, human resource development, and institutional reform have been important components of A.I.D.'s strategy towards expanding private sector capacity, enabling them to take a leading role in Uganda's-export-led growth strategy. For example, EPADU successfully decreased the number of signatures necessary to get an export permit from 17 to 1, which has in turn led to more private exporters and contributed to expanded exports.

While A.I.D.'s primary approach has been to support policy changes aimed at enhancing the business climate, the Mission is now moving towards a focus on increased productivity for key commodity subsectors. CAAS, ANEP II, and the new MARS project will be taking a commodity focus. This approach identifies the effective demand for agricultural commodities which are being produced and marketed by Uganda (and those in which Uganda has a comparative advantage), and focuses investments and promotional activities on these commodities. The CAAS project, for example, has changed its emphasis from broad institutional support to UCA to supporting targeted co-ops, crops, and geographic regions with the assistance of an agribusiness advisor.

Policy reform and implementation of policy changes will continue to be important objectives of the Mission, as reform programs become operationalized. There will also be an

increasing emphasis on providing more direct assistance to the private sector, through the cooperatives with CAAS, and through exporter groups or other private associations through ANEP II. PACB is currently attempting this approach through support to the Uganda Manufacturers Association. Private enterprises are also receiving direct assistance through the Operational Constraints Analysis Program (OCAP) undertaken by the African Project Development Facility (supported under ANEP).

6. Monitoring and Evaluation of Program Impact

The Mission has recently completed a Program Logframe and has chosen performance indicators to measure program impact (CPSP, 1992-1996). The program goal is to establish the basis for sustainable improvements in the standard of living. The strategic objective in the area of agriculture is to increase rural men's and women's income from agricultural exports. The performance indicators chosen to measure success in meeting this strategic objective are an increase in non-traditional export receipts to $100 million by 1996 from a base of $30 million in 1990; and increased farmer participation in the production of export crops, measured by commodity and supported through EPADU by USAID. The aim is to increase farmer participation by 100% within four years of initiating support. For example, vanilla producers would increase from 600 farm families to 1,200 farm families by 1994.

Targets identified in the CPSP for this strategic objective include:

1) **To promote a policy and regulatory environment that strengthens agricultural markets and export competitiveness.** Indicators are:

- a single, unified market-based exchange rate established by December 1992.
- legislation enacted to establish export processing zones (EPZs by December 1992.
- GOU meets budgetary targets for feeder road repair and rehabilitation. A minimum of 6000 km will be rehabilitated.
- increase in cooperative marketing of NTEs from $0.5 million in 1990 to $1.0 million by December 1995.

2) **To improve the policy and institutional framework for agribusiness investment incentives. Indicators are:**

- UIA-assisted investment increases.
- repeal industrial licensing act by June 1993.
- transfer of DAPCB government-held production properties to the private sector reaches 33% by 1993.
- study of land market access completed and policy recommendations endorsed by NEAP by 1994.
- agricultural cooperatives and private exporters will produce, market, process, and export 55% of total coffee exports by 1995.

3) **To strengthen information and technical advisory services for agribusiness exporters.** Indicators are:

- agricultural market information on-line and accessible. Weekly crop market information distributed by regular newspaper and radio services by December 1992.
- technical support services provided to 200 producers and exporters.

4) **To adopt improved production technologies for non-traditional exports.** Indicators are:

- improved varieties increase yields in target areas (e.g., maize increase 33% from 0.9mt/ha. in 1991 to 1.2 metric tons/ha. in 1995).
- increased crop production (e.g., maize output increases from 270,000 mt in 1991 to 420,000 in 1995)[5].
- soil conservation practices tested and adopted.
- IARC technical inputs provided for selected commodities.

When Mission personnel were asked about the development of impact indicators for monitoring the impact of their overall program, the following points were raised:

- It is a useful exercise, but a difficult one, with very little baseline data available. An attempt to gather the necessary baselines is underway.

- Several felt that the development of a standardized system of measuring impact and collecting information would be useful, but others felt that each Mission should have flexibility in this matter.

- It was suggested that one important role for the Africa Bureau is to present in a more realistic way to Congress what can and cannot be accomplished in terms of measuring impact of many of these programs.

7. Information Gaps and Needs

Information constraints exist at all levels of the marketing system, and future programs need to find ways in which to address these constraints. For example, exporters have little or no access to information on regional or international prices of commodities, transportation costs, and existing or potential markets for their products. Communication between producers, traders, and exporters is time-consuming and expensive, particularly for exporters communicating with overseas buyers. Making timely market information readily accessible through newspapers and

[5] The assumption is that both yields and area planted will increase.

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radio broadcasts will greatly assist farmers and traders. One of the lessons learned from Kenya with respect to the development of a domestic marketing information system (MIS) is that accurate, timely market information needs to be collected, analyzed and effectively disseminated for a limited number of strategic markets. When too much detailed information is collected for a large number of marketplaces, nothing ends up getting analyzed or disseminated on a timely basis. The provision of international market information to urban traders and exporters will also facilitate an expansion in NTEs. **Given the overlap in commodities produced and exported regionally and internationally from countries such as Kenya, Uganda, and Tanzania, USAID development of an Eastern Africa regional MIS is worth exploring.**

ARTS/FARA could consider developing an East Africa regional market information system in-house or through a contract to a private firm. Such a regional MIS would serve as a price and trade volume information clearinghouse for selected commodities, including cereals, oilseeds, and non-traditional exports such as fruits, vegetables and flowers. Coordinating information collection, data base establishment and dissemination at the regional level would realize scale economies and assist regional Missions, African government agenices and export promotion organizations, and trade associations.

In making judgements about the potential profitability of alternative non-traditional exports, exporters need information about the structure and characteristics of demand for different commodities in both regional and international markets. Knowledge of consumer tastes and preferences regarding commodity grades, varieties, appearance, texture and other attributes is critically important. In choosing which commodity subsectors to support through non-traditional export promotion programs, USAID and other donors should use the level of demand for various Ugandan commodities in both regional and international markets as a key criterion. An important area for applied research is the estimation and projection of demand for major or potential exportables.

8. Lessons Learned and Towards an Analytical Agenda

The three-pronged approach taken by USAID/Uganda—including support for policy and regulatory reform, institutional support (for EPADU and the cooperative movement), business training and technical assistance to agribusinesses, and commodity-specific support for key export firms and direct assistance to the private sector—is resulting in a high growth rate for non-traditional exports. Much remains to be done, however.

In the shift from a broader policy reform agenda to more direct assistance to the private sector, it has become apparent that a commodity systems approach is needed. As the Mission director, Keith Sherper, pointed out, policy reform isn't enough when there still are infrastructural, technical and institutional constraints confronting entrepreneurs who are starting up. A recent concept paper examining possible A.I.D. strategies for pursuing its goals within the agricultural sector, suggests that a new approach is needed which is demand-driven, focuses on increased productivity for key commodity systems, and promotes more effective linkages

between the public and private sectors (Herlehy and Hill, 1992). The recent AMIS study which examined the structure, conduct, and performance of Uganda's agricultural marketing system for NTEs concurs with this assessment (Kristjanson et al., 1992).

There is also a serious lack of communication and understanding between public sector and private sector marketing participants. USAID has a role to play in defining complementary roles for both the public and private sector; the public sector should provide necessary public goods and minimal regulation and avoid excessive, costly intervention that competes with private agents. **Future A.I.D. programs will need to incorporate roundtable discussions or other mechanisms of getting the private and public sector together to discuss the different constraints they face and methods of overcoming them.**

Some of the most difficult constraints to overcome in Uganda arise due to the lack of marketing experience by producers and exporters. The tradeoff between short-run profitability and the need to develop longer-term marketing arrangements faces all market agents. While there is a recognition by some of the importance of establishing commercial relationships and the reputation of being exporters of high-quality commodities in a reliable and timely manner, it is not widespread. **Since developing viable long-term commercial relationships requires careful nurturing, USAID/Uganda's training and technical assistance to exporters of non-traditional commodities are timely and of the highest priority.**

Commodity import programs that obligate private enterprises to "buy American" send a contradictory message to the goals of policy reform being pursued by A.I.D. If donors want to encourage an environment where entrepreneurs can operate more efficiently (unhampered by government involvement), then they should be allowed to import inputs from wherever it is most cost-effective (unhampered by donor restrictions).

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ANNEX F

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN GHANA

1. Introduction

Ghana was selected as one of the 10 countries for initial examination for several reasons. First, the Government of Ghana (GOG) implemented an Economic Reform Program (ERP) beginning in 1983. The purpose of the ERP was to reverse the economic decline of the 1970s and early 1980s, which was the result of high oil prices, poor economic policies, and political insecurity. Second, impressive performance in food and agricultural production has made a major contribution to high economic growth rates since 1983. Third, Ghana is actively promoting private sector activities and has made a strong effort to privatize state-owned enterprises (SOEs). Fourth, Ghana is diversifying its economy and undertaking an ambitious program for developing high quality non-traditional exports (NTEs), such as pineapples and mangoes, for European markets. Fifth, USAID/Ghana has provided substantial assistance to agriculture, including funding for the Agricultural Productivity Promotion Program (APPP), which consists of the following components:

- Policy measures related to the privatization of input delivery systems for fertilizer and seed;
- Budget support to the GOG for agricultural extension services and rural road rehabilitation; and
- Policy studies, seminars, and collection of baseline data for monitoring and evaluating selected indicators (employment, transportation and marketing, improved seed availability, access to fertilizer, extension services, and private sector activity).

Finally, the GOG approved the World Bank-financed Ghana Medium Term Agricultural Development Strategy (MTADS) for the 1991-2000 period. MTADS, which seeks to address the problems that beset Ghana's agricultural sector despite eight years of the ERP, is divided into two five-year action programs.

Because of the relative importance of the agricultural sector to the economy, the GOG has placed a high priority on agricultural development. Through MTADS, the GOG aims to maximize private sector participation in agriculture; to allocate public resources more efficiently; and to build an enabling environment which contributes to economic growth, poverty alleviation, and sound ecological management. The GOG also seeks to increase the output of export and food crops by raising productivity and expanding the area under cultivation. The strategy assumes that the boom resulting from cocoa production in the 1960s can be repeated with a variety of tree crops, with support from rice and maize production, among other commodities.

2. Key Indicators of Economic Performance

Ghana is a resource-rich coastal West African country that was the world's number one exporter of cocoa at the time of independence. The country enjoyed a relatively well-developed infrastructure and quality of life compared with its neighbors. Ghana produces gold, timber, and cement, and has developed a significant manufacturing and processing capacity for consumer goods such as cloth and food products. Unfortunately, due to deteriorating economic conditions in the 1970s and early 1980s, output declined and real per capita income fell almost one-third.

Through efforts under the ERP, which began in 1983, production has expanded steadily, and GDP has averaged over 5 percent per year, in large part a result of the massive increase in donor assistance. Capacity utilization in manufacturing has increased from 18 percent to 37 percent, much of which can be attributed to the liberalization of the trade regime and increased access to foreign exchange. Agriculture remains the backbone of the Ghanaian economy, contributing about one-half of GDP.

	1980	1990	1980-1990
Population (millions)	10.7	14.9	
Annual Population Growth Rate			3.4%
Urban Population Growth Rate			4.2%
Urban Population/Total Pop	30.7%	33%	
Per Capita GNP	$410	$ 390	
Average Annual Growth in GDP			3.0%
Inflation Rate			42.5%
Debt Service (% of Exports)	12.5%	34.9%	
Agriculture's Share of GDP	66%	48%	

Source: World Development Reports, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. Economic Reform Program

The key objectives of the GOG's ERP were to restore fiscal and monetary discipline, liberalize prices and foreign exchange markets, rehabilitate and invest in economic and social infrastructure, and promote private sector investment. Specific accomplishments of the ERP to date include elimination of foreign exchange controls, elimination of price controls for all but a few commodities (e.g. petroleum, maize, tobacco, and cocoa); increased producer prices for cocoa; increased provisions for earnings retention to promote non-traditional and manufacturing

exports; investment in infrastructure; modification of the Investment Code; improvement in budget deficit and debt reduction; reduction of civil service, despite severance cost constraints; and liquidation of 15 SOEs as of 1990.

While Ghana has made progress in creating an enabling economic environment, reform in its state-owned enterprises (SOEs) has been slow, in part a result of the high divestiture costs from end-of-service personnel benefits, and of the limited financial records, which complicates the divestiture program. Further, the institutional environment, according to the 1989 Manual for Action in the Private Sector (MAPS) study, is still inadequate.

3.1 World Bank Programs

The World Bank's programs have assisted the GOG in establishing the macroeconomic conditions necessary for private sector-led growth in a free market economy, in part by cushioning the impact of structural adjustment and providing resources for economic growth. The major activities in Ghana have consisted of the following:

- S.A.L.: Structural Adjustment lending, providing foreign exchange (US$115 million) for the foreign exchange auction, with additional funds (US$120 million) tied to divestiture;
- Financial Sector Credit: Providing foreign exchange counterpart funding (US$100 million) to strengthen Ghanaian banks;
- Small and Medium Enterprise Credit: Channeling funds (US$30 million) through the Bank of Ghana to commercial banks for both long-term and working capital needs at market-determined interest rates;
- Rural Finance Credit: Providing credit for agricultural production-related activities, including farming, transport, and processing, with US$20 million;
- Other Activities: Supporting the Ghana Investment Center (GIC), which approves private sector investment projects, and promoting dialogue between private sector associations and the GOG. One program objective is to change the role of the Investment Center into a promotional one.

3.2 Ghana Medium-Term Agricultural Development Strategies (MTADS)

The strategy outlined in MTADS consists of strong export promotion and efficient import substitution efforts powered by strong economic incentives and a conducive investment environment contributing to strong private sector growth. This strategy will require efforts in five main areas: (i) improved incentive framework; (ii) improved agricultural support services; (iii) increased private sector participation in agricultural development; (iv) strengthened agricultural sector management; and (v) the establishment of a framework for a rational allocation of public sector resources.

Improvements will rely on changes in several areas:

- In **cocoa**, reliance on cocoa export levies for government revenue will be reduced; the Ghana Cocoa Marketing Board (COCOBOD) operating expenses will be reduced; barriers to private sector participation in cocoa marketing and processing will be removed; and research will be conducted into new technology and disease control.

- Interest in **coffee**, rising along with producer prices, will further improve with the elimination of the export levy; direct private sector exports will be permitted; and other country experiences in the coffee auction will be examined to determine their appropriateness to Ghana.

- In the **palm oil** subsector, MTADS recommends divestiture of the parastatals and encouragement of the smallholder production, which is import-substitution efficient and currently comprises two-thirds of the total production. MTADs also recommends integration of smallholders into the urban and industrial markets.

- In **non-tree crops**, MTADS recommends the continued government withdrawal from marketing and price determination by eliminating the guaranteed minimum price (GMP) for rice and maize and the decreased role of government boards and state enterprises.

- In the area of **agricultural support services**, the strategy envisions renewed efforts to strengthen research and extension, input supply, and post-harvest management. Reinforcing efforts under the APPP, activities would include strengthening the regular research/extension linkages, upgrading and unifying extension services, privatizing fertilizer distribution and seed grain marketing, and improving and expanding storage facilities, feeder roads, and communication infrastructure.

- MTADS strongly emphasizes **privatization** and the **increased role of the private sector** in agriculture, including privatizing the fertilizer subsector, updating the portfolio of all SOEs in the agricultural sector, classifying them according to their financial viability and the actions being sought on their behalf (privatize, liquidate, restructure, or no action), and taking the appropriate actions.

- To increase **suitable storage capacity** at the various tiers of the marketing chain, MTADS seeks policies to encourage private sector investment, the commercialization of all Ghana Food Distribution Corporation (GFDC) marketing and rice milling operations, and the establishment of the GFDC as the lead agency for the development of market facilities for livestock and other commodities.

- Efforts in agro-processing may focus on **strengthening the commercially viable, small-scale, agro-processing subsector** by promoting stronger women's groups to achieve economies of scale, secure group credit, expand market outlets, and improve efficiency and quality.

- **Sector reform management** and responsibility for sector-wide policy formulation and monitoring will be unified under an interministerial body. A system of decentralized program and budget management will adapt the national MTADS to each region and sector and will increase the timeliness and appropriateness of activities.

The World Bank subsector programs envisioned for 1991-1995 are listed below, with their funding in U.S. dollars:

- Agricultural Technology & Human Resource Development Program ($132 m.)
- Livestock Development Program ($21.5 m.)
- Fisheries Development Program ($32 m.)
- Irrigation and Water Resources Development Program ($87.9 m.)
- National Feeder Road Program ($136.5 m.)
- Marketing and Agro-Processing ($50.6 m.)
- Implementation and Monitoring of MTADS ($4.5 m.)

The greatest share of funds will be given to the feeder road program, a reflection of the importance placed on feeder roads in Ghana's overall economic development. This program is an addition to other programs which, although substantial, remain inadequate to fully resolve the problem of poor road infrastructure, as revealed by transportation's high percentage share of marketing costs.

The subsector program of most interest to this study, Marketing and Agro-Processing, will cost a total of US$50.6 million and have three major components: a grain storage program, for lease by the private sector, costing $40 million; a rural market development program at $9.92 million; and rehabilitation of cold stores at $410,000. Two smaller programs will be a maize support price study at $20,000 and a policy analysis of agro-processing at $200,000.

4. Summary of the A.I.D. Program

USAID/Ghana's overall Mission goal, as stated in the FY 1989-90 Action Plan, is to improve the quality of life for Ghanaians by promoting per capita income growth and employment opportunities. Four objectives were selected to focus assistance to reach this goal:

- First, contribute to accelerating the creation of productive employment in the private sector with an emphasis on agriculture;

- Second, help finance the structural adjustment program, specifically the costs of redeploying government employees and costs associated with divestiture of SOEs;

- Third, improve management of population pressures;

- Fourth, increase the Mission's knowledge and understanding of the private sector and the ERP.

This annex reviews USAID/Ghana's experience in agricultural marketing and agribusiness projects and programs during the last decade as they operated to achieve these objectives and those of earlier Action Plans. These projects and programs include: Agricultural Productivity Promotion Program (APPP), MIDAS II, the studies under the Private Enterprise Development Support Project II, Manual for Action in the Private Sector (MAPS) and Agricultural Marketing in Ghana, and Macroeconomic Assessment of Ghana's ERP and Its Impact on Private Sector Development.

World Bank officials believe USAID can play a significant role in strengthening private sector associations, which are relatively weak, promoting investment, and providing private sector training at the managerial level in financial projections, feasibility studies, and credit applications, among other areas.

4.1 Managed Inputs and Delivery of Agricultural Services (MIDAS I and II)

The original MIDAS I program began providing assistance to the seed multiplication unit (SMU) of the Ministry of Agriculture (MOA), the forerunner to the Ghana Seed Company (GSC), in 1975. This followed A.I.D.'s finding that Ghana needed a seed development program and that U.S. seed companies lacked interest in becoming involved in the existing seed industry in Ghana. The primary objectives of the MIDAS I seed program were to produce foundation seed, utilize contract growers to produce certified seed, establish a seed certification program, process seed, and assist in establishing a comprehensive distribution program.

The MIDAS I project faced many difficulties. MIDAS I was erratic in keeping to its implementation schedule and did not meet project goals, so AID/W redesigned the project in 1979, establishing the Ghana Seed Company Ltd. as a parastatal with 60 percent government ownership and 40 percent investor purchase. MIDAS I accomplished this by lifting the complete SMU program from the MOA, with the objective of making the GSC an effective, profit-making, semi-private seed company which could effectively operate outside the MOA.

The second phase, MIDAS II, providing continued USAID technical, management, and financial assistance, was implemented from 1982 to 1985, with an extension until September 30, 1986. Discussions between USAID and the GOG during the collaborative design of the Agricultural Productivity Promotion Program (APPP) led to the termination of MIDAS II and the privatization/restructuring efforts through program activities.

4.2 Private Enterprise Development Support Project II

The Private Enterprise Development Support Project II conducted three studies in Ghana in 1989, which assisted the Mission in meeting its objective of increasing the knowledge and understanding of the private sector.

The first study, Agricultural Marketing in Ghana, examined the agricultural product marketing system in Ghana, its constraints, and the opportunities for useful USAID assistance. Constraints included inadequate marketing infrastructure, rudimentary storage and processing techniques and facilities, lack of credit, limited market information capacity, predominance of SOEs in agro-processing, weak institutional capacity, and lack of export infrastructure and facilitating procedures. Agricultural Marketing in Ghana identified five areas of opportunity for effective USAID assistance to address these constraints:

- Rural infrastructure: Improve condition of roads and markets in order to increase volume of production marketed and reduce marketing costs;
- Small-scale marketing and agribusiness enterprises: Provide seed capital, management training, and simple agro-processing demonstrations;
- Agricultural marketing information: Establish a system for major crops: e.g. cassava, cocoyam, yam, plantain, gari, cocoa, maize, rice, sorghum, millet, oil palm, poultry, livestock (price, stocks, flows, harvest forecasts, and response elasticities by geography and demography);
- Non-traditional exports and regional trade: Promote private sector exporter exchanges and strengthen the Ghana Export Promotion Council (GEPC); and
- Integrated agricultural financing: Design and implement an agricultural credit program.

The second study is a comprehensive private sector assessment utilizing the approach and methodology described in the Manual for Action in the Private Sector (MAPS). The project produced five outputs:

- The Ghana Country Reference Binder
- Private Sector Description Report
- Private Sector Survey
- Report on Dialogue Sessions and Focus Groups
- Private Sector Strategy

The Private Sector Strategy outlined several important roles USAID can play in the development of private sector agribusiness and agriculture marketing in Ghana:

- Informal/Small Enterprise Sector: Provision of technical assistance, training, and credit.

- Institutional Enabling Environment: Improvement in the enabling environment

in conjunction with World Bank efforts, building on the macroeconomic reforms.

- Financial Sector Reform and Credit Needs: Provision of resources in conjunction with other donors to credit unions and cooperatives, if they are privatized and reformed. (The existing financial system is troubled and unable to adequately serve the needs of Ghanaian business, which is primarily small or informal.)

- Agro-processing and Agricultural Commercialization: Assistance in targeting markets and in processing to increase high-value agro-exports. (With the appearance of production surpluses in response to economic incentives, bottlenecks have appeared in processing and commercialization.)

- Joint Venture Promotion: Promotion of a few, larger scale investments which would stimulate wide participation through contract farming or through demand pull and contribute significantly to private sector growth.

The third, Macroeconomic Assessment of Ghana's Economic Recovery Program and Its Impact on Private Sector Development, evaluates the ERP and its effect on Ghana's private sector, making recommendations for reforms for further private sector development, including changes in the investment code, reduction in corporate income taxes, and prospects for establishing an Export Processing Zone (EPZ).

4.3 Ghana Agriculture Productivity Promotion Program

The Agriculture Productivity Promotion Program (APPP), FY1989-91, was designed to promote increased food production by increasing farmer efficiency and productivity. The APPP paralleled the World Bank's Agriculture Services Rehabilitation Program (ASRP) initiated in December 1987. It sought to alleviate major constraints, including the privatization of fertilizer supply and distribution, the revitalization of the seed industry, the improvement of feeder roads and other rural infrastructure, and improvements in the agricultural extension service and other institutions. Funds were to be released in tranches based on GOG policy reform and the achievement of specific benchmarks in its program implementation.

Fertilizer subsector reform continued the World Bank efforts in the ASRP, which reduced fertilizer subsidies, but fell behind schedule in its privatization efforts. After two years of the APPP all subsidies were removed but private sector activities remain limited as a result of depressed prices resulting from GOG price-setting and sale of accumulated stocks. Fertilizer usage by small farmers in 1990 was only 20 percent.

Due to the Ghana Seed Company's former major role in the Ghanaian seed industry, the GSC's poor performance in the industry had become a major obstacle to its revitalization and expansion by 1988. The APPP planned for USAID to conduct GSC asset valuation studies and review options for privatizing/restructuring the GSC, with final plan approval by USAID. At the end of 1989, GOG announced the closing of the GSC, with the legal liquidation to occur in

1990.

Further APPP efforts included training and logistical support for the agricultural extension activities, improvement of the weak rural infrastructure, particularly feeder roads, and supply of rural credit to increase access to improved technology and modern inputs. Although during the first two years of the APPP the extension service held 16 training seminars for farmers and staff and purchased transport equipment, it has too many diverse activities to focus on information and technology transfer to farmers. In contrast, after two years the feeder road program had engaged in considerable training and certification of contractors, who had completed 115 km of roads and expected to complete 427 km more in the last year.

4.4 Ghana Trade and Investment Program (TIP)

The Program Assistance Identification Proposal (PAIP) of 1991 schedules implementation of the TIP for July 1992 to December 1996. The program purpose is to reinforce the success of the ERP by working with the private and public sectors to improve the ability of Ghanaian firms to produce internationally competitive products for export.

The TIP is designed to increase private investment and exports in the following ways:

- Strengthening the policy and institutional framework for private sector investment;
- Improving the financing and investment incentives available to the private sector;
- Improving the capacity of individual firms and entrepreneurs to export; and
- Strengthening key institutions such as the Ghana Export Promotion Council, the Ghana Investment Center and the Association of Ghanaian Exporters.

Initially, TIP will focus assistance on the key products that comprise 85 percent of Ghana's non-traditional exports. However, through product diversification efforts, these commodities are expected to comprise only 70 percent of the non-traditional exports by project end. The current key non-traditional export products, which are primarily agriculturally-based, are pineapples, yams, tuna, frozen fish, shrimp, kolanuts, furniture, aluminum products, salt, scrap metal, rubber, palm oil, and artisanal products.

The largest portion of the project will consist of a cash grant that will support the ERP by supplying foreign exchange in five tranches for the weekly auction, with the local currency that is generated going for budget support to key sectoral organizations. A smaller project grant will provide technical assistance and training to key GOG organizations, assist development of project financial plans for businessmen, provide technical assistance and training for private sector firms with production and marketing problems, assist formation of an exporter association, and provide evaluation, impact monitoring, and financial review support. In that effort, the Investment Promotion Center (IPC) completed a workshop on export diversification

in October 1991 and will follow-up with a second workshop in September 1992. The September workshop will include private sector participants from Kenya, Uganda and Zimbabwe.

The TIP program is structured to maximize conditionality for funds disbursal. Funds will be disbursed on a tranched basis over five periods. Disbursal will be conditioned on evidence that specific conditions precedent (CPs) have been met according to the approved schedule. Tranched funds will be tracked carefully to ensure they are used for approved activities and in addition to each agency's normal expenditures.

TIP will be monitored by the Mission Monitoring and Evaluation system (M&E), which is responsible for coordinating the impact monitoring of all programs and projects in USAID's portfolio. In addition, impact monitoring will be contracted through local and U.S.-based contractors; a third year and a final evaluation will also be undertaken. Project funds will provide for a full-time personal services contractor in the Trade, Agriculture, and Private Sector Office (TAPS), which is headed by an agricultural economist, to manage the daily activities of TIP.

Note that Abt Associates has worked through the Implementing Policy Change (IPC) Project, funded partially by the Bureau for Research and Development, with the GOG, the Ghanaian private sector and USAID/Ghana to promote non-traditional exports. Abt Associates acted as a catalyst in forming the Federation of Associations of Ghanaian Exporters, an umbrella organization of all Ghana's export associations. The IPC Project put on a workshop on export diversification in October 1991 and plans to do a second workshop on the same topic in September 1992, which will be attended by exporters from other African countries such as Kenya, Uganda and Zimbabwe. Abt Associates, through IPC, is also helping the GOG implement critical reforms, which include the introduction of simplified documentation requirements for export and investment approvals; 100 percent retention of foreign exchange by exporters; and establishment of a "one-stop shop" for exporters to obtain the required approvals.

4.5 Economic Reform and Decentralization

As described in the 1992 Congressional Presentation, the Economic Reform and Decentralization Program will be conducted from FY 1992 to FY 1996 with total funding of US$10 million. Its purpose is to strengthen the capacity of public sector institutions to manage economic reform and to decentralize operations. It will address policy analysis capabilities of principal government ministries; teaching and research activities of the university-level economics and public administration departments; and various developmental and municipal activities at the district and local government levels.

The program proposes to provide assistance to leverage policy and institutional constraints; provide technical assistance and training to address analytical and managerial problems; and provide grant resources to support local government financial structures. Project technical assistance and training will provide economic and managerial capacity-building assistance to key developmental ministries, as well as to University Departments and Institutes.

5. Synthesis

5.1 Approaches to Agribusiness and Agricultural Marketing

USAID relies on a marketing policy approach to increasing the efficiency of the agricultural marketing and agribusiness system in Ghana, focusing on alleviating the regulatory and policy constraints to market operations. This approach has been important since the beginning of the ERP, in conjunction with an institutional approach. Since the mid-1980s, USAID/Accra has heavily emphasized the privatization and commercialization of agriculture marketing activities to reduce the role of and to liquidate many SOEs and to encourage the commercially viable small-scale producers and enterprises. The institutional approach is gradually losing momentum as privatization reforms are implemented. An agribusiness approach which actively promotes exports and provides management training and credit is becoming increasingly important under the TIP program.

The World Bank strategy, outlined in MTADS, is primarily a marketing policy approach, consisting of a strong export promotion and efficient import substitution effort powered by strong economic incentives. This approach is in conjunction with an institutional approach in emphasizing a conducive investment environment and strong private sector growth while rationalizing/liquidating the SOEs that have long dominated Ghana's economy.

5.2 Lessons Learned

5.2.1 Additional Efforts to Foster Private Investment

A key lesson from this overview is that an effective Economic Reform Program is necessary but not sufficient to foster private sector investment and export growth. Considered a success by the World Bank, the ERP reversed the economic decline of the previous decade, in large part through the donor financing. However, it is necessary to do more than remove policy/regulatory barriers to foster private investment. Financial resources and access to credit, the identification of new areas of market opportunity, knowledge of export market requirements and process, and the development of an adequate infrastructure are just as important to remove constraints to growth.

5.2.2 Training for Exporters

New and profitable market opportunities are important to promote private sector growth. The long-held dominance of SOEs in export and large-scale agro-processing contributed to the maintenance of private sector activities in small-scale business and the informal sector. While infrastructure bottlenecks continue, exporters at an export diversification workshop put more emphasis on the bureaucratic bottlenecks. However, several exporters stated that the recent bureaucratic rationalization, which reduced to a single document the number of papers necessary for exporting, has simplified the procedure. Their view is that exporters just need to make the

effort to learn the procedure. Exporter training, coupled with market price, demand, and product quality information is needed.

5.2.3 Private Confidence Investor

The private sector must have confidence in the reliability of infrastructure and the domestic enabling environment in order for private investment to occur. Access to foreign exchange earnings, financing, and a fair judicial system, among other needs, are important to establishing this confidence. These issues are only now beginning to be addressed in earnest, and investments have yet to reflect these changes.

5.2.4 Extension/Other Support Services

The importance of extension and other support services was apparent under both MIDAS and the APPP. Maintaining a strong research and extension linkage is important in disseminating new technologies, such as hybrid seed, and in training for new commodity production, such as nontraditional horticultural exports. One of the World Bank's objectives under MTAD is to increase this linkage. Under the TIP project, one activity which is not mentioned but which reflects Ghanaian culture is the effort by successful exporters to teach others the export process. Lessons to learn from the Côte d'Ivoire experience are limited, due to the dramatic difference in volume and the lack of direct shipping from Ghana to Europe.

5.2.5 Import and Foreign Exchange Liberalization

Import and foreign exchange liberalization revealed itself as a major factor in increased production and exports, under both MIDAS II and the APPP. The resulting reduced costs and increased availability of inputs were significant factors in the economic growth after implementation of the ERP. While the amount of foreign exchange earnings that can be retained will soon increase to 100 percent, credit difficulties remain, with some exporters asking for rights to conduct borrowing off-shore.

5.2.6 Management and Accounting Training

The high level of technical knowledge necessary to function in the private sector became obvious in the MIDAS II project. The bureaucrats' difficulties in running a commercial enterprise without training in management or accounting systems was a lesson well learned under MIDAS II. The new TIP sets aside funds for technical assistance to small and informal sector businesses in management and accounting systems.

5.3 Agribusiness Indicator Measures

The USAID/Accra Mission has made some efforts to develop agribusiness indicators in conjunction with its program objectives. Under the general program goal of increased per capita income with the strategic objective of helping to create productive employment in the private

sector, several indicators were identified to assess target achievements.

Strategic Objective: Accelerate the creation of productive employment in the private sector, emphasizing agriculture.

Indicator: Numbers employed in the private and agriculture sectors.

Target 1.1: Increased farmer incomes and productivity from maize and rice.
Subtarget a: Improved market access due to feeder roads.
Indicator: "Deflated" rural freight/passenger fares.

Subtarget b: Establishment of vertically integrated private seed companies.
Indicator: Number of companies.

Subtarget c: Better access to fertilizer due to privatization of fertilizer trade.
Indicator: Number of private dealers registered.

Subtarget d: More productive extension service.
Indicator: More farmers served per extension agent.

Target 1.2: Entrepreneurs trained to successfully bid and execute contracts to maintain feeder roads.
Indicator: Number of contractors trained.

Target 1.3: Short-term jobs created in rural areas on private sector contracts for feeder road rehabilitation.
Indicator: Temporary employees hired by contractors.

Target 1.4: Increase employment in private trade of fertilizer and seeds.
Indicator: Number of private traders.

The indicators listed above are a first step toward establishing measurements for the level of agribusiness development, but are generally too simplified. The indicators for subtarget (b) and (c) and for target 1.3 and 1.4 count only an absolute number of participants in the market without relating this to the volume of sales. New entrants with a small market share might be counted the same as participants with high volume activities. Along the same lines, in counting the number of farmers served as an indicator of a more productive extension service, the quality of the service offered is not considered. This should be a process indicator instead. The same applies to counting the number of contractors trained as an indicator of achievements in training entrepreneurs to successfully bid and execute contracts to maintain feeder roads.

5.4 Information Needs and Gaps

First, the TIP program utilizes A.I.D.'s experience and comparative advantage in conducting trade and investment promotion activities. However, some gaps remain in information important for A.I.D. in implementing this program, as well as in areas where the program reform strategy needs to be reassessed.

- Under the export and investment capacity improvement component, A.I.D. should consider providing assistance for exporters of key non-traditional products in meeting quality standards correctly documenting letters of credit, functioning in the export approval and documentation process, strengthening private sector trade associations, and providing a forum for exporter information and technique-sharing.

- Credit difficulties and access to term finance and working capital will continue as long as banks continue to perceive uncovered risks in both pre-shipment and post-shipment export finance. Difficult collateral requirements and cumbersome procedures are also a problem.

- An additional evaluation of project objectives and scope of activities needs to occur after the first full year of operation of the TIP to determine whether changes in strategy, scope of activities, or resource allocation are needed.

Second, opportunities to expand regional trade are constrained by similar factor endowments across countries and inadequate knowledge of comparative advantage. A.I.D. should conduct country studies to determine the comparative advantages for trade and production of each country and should explore the development and implementation of a region-wide market information system and trade and investment program to encourage and assist the exploitation of these comparative advantages, such as salt exports from Ghana.

Third, a system of market information which provides information on demand, price, supply, and quality of competition, along with a system of crop and weather forecasting are important to maintaining adequate production levels and moderating the fluctuation of commodity prices and farmer incomes. Market information is also important so the farmer and exporter can determine the profitability of different crops and markets under different cost conditions, such as variations in air freight costs.

5.5 Conclusions

The ERP was successful in stimulating economic growth in Ghana and is a necessary step toward economic and market system improvement and private sector growth. Ghana is poor and deeply in debt; its private sector is nascent and underdeveloped. While policy and regulatory reform are needed to provide incentives and a business climate for the private sector, they are rarely sufficient in and of themselves.

What is required is assistance to strengthen institutions that support private sector growth, exports, and investment, by providing training and funding for crucial activities. The TIP program is timely in this context. It provides training and assistance in management and in the export process by helping to establish trade relations through promotional activities. However, it does not go far enough in institutionalizing a market information collection and dissemination system which can inform producers and traders of the demand, supply, prices, quality standards, and potential market outlook, and therefore contribute to the stabilization of commodity prices and farmer incomes. The TIP program should be further examined in its final formation to determine if its approach is appropriate.

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ANNEX G

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN GUINEA

1. Introduction

Guinea is a resource-rich country with much agricultural potential. Unfortunately, agricultural production stagnated throughout the 1970s due to short-sighted government policies on agricultural trade and investment. The government attempted to monopolize all aspects of agricultural production and trade through policies and measures that effectively banned private sector participation in the economy. Because the government was not able to organize and operate a public sector marketing system, the economy relied on unofficial market participants for the distribution of agricultural products. In view of the poor performance of the state-run economy, and with the support of outside donors, the government undertook a series of steps to liberalize the market system. Reforms included the legalization of private trade, the elimination of parastatals, the liberalization of price policies, the removal of roadblocks, and increased producer prices.

As a result of the Government of Guinea's initiation of its economic and administrative reform program in December 1985, USAID discontinued support for the traditional development projects and activities that characterized its assistance program since its return to Guinea in 1976. The new strategy concentrated on providing support to the economic reform program. Instead of development projects requiring long-term commitments, USAID shifted to project and program assistance activities designed to address the needs of the economic reform period.

In view of the profound changes in the political and economic environment in Guinea brought about by the reforms, and given Guinea's potential in agriculture, USAID devised a strategy emphasizing the following tactics:

- Promote policy reforms through policy dialogue and financial assistance in order to remove constraints to agricultural-led development;

- Maintain and improve policies allowing foreign exchange rates to be determined by market forces, and improve private traders' access to foreign exchange;

- Facilitate the implementation of banking reforms to increase private agricultural enterprises' and rural traders' access to credit;

- Reduce administrative barriers and restrictions, including government price controls, on the private marketing of agricultural inputs and produce, exports of cash crops, and trade in rural areas of consumer goods; and

- Develop private enterprise and competitive marketing, increase the availability of agricultural inputs, and improve the transportation infrastructure.

2. Key Indicators of Economic Performance

Guinea's recent economic performance has been impressive considering the problems still facing the government in terms of implementing economic policy reforms. GDP growth went from 3.1 percent in 1987 to 6.0 percent in 1988, then stabilized at 4.1 percent and 4.3 percent in 1989 and 1990. The GOG has managed to successfully reduce inflation from 72 percent in 1986 to 22 percent in 1990.

Agriculture, the largest sector in terms of employment and potential for growth, has registered solid economic growth, but there are indications that this sector is reaching the limits of its ability to expand without further market development (e.g., roads, commercial codes and working capital).

Approximately 95 percent of total export revenues come from the mining sector, which contributes about 25 percent to total GDP and 79 percent of total tax revenues. While mining provides the economy with hard currency, it is an enclave industry not well-integrated into the economy. The most important mineral exports are bauxite/alumina, gold and diamonds. Key indicators of general economic performance are as follows:

	1980	1990	1980-1990
Population (millions)	5.4	5.7	
Annual Population Growth Rate			2.5%
Urban Population Growth Rate			5.7%
Urban Population/Total Pop		26%	
Per Capita GNP		$ 440	
Average Annual Growth in GDP ('87-90)			4.4%
Inflation Rate			N/A
Debt Service (% of Exports)	N/A	8.3%	
Ag. Sector Contribution to GDP	37%	28%	

Source: World Bank Development Reports 1982 and 1992.
Note: The third column shows the annual compound growth rate for the period 1980-1990.

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3. Economic Reforms and the Agricultural Marketing System

Internal marketing channels in Guinea today still closely follow those established before and during the colonial period. The volume of interregional trade is significant, but external agricultural trade remains fairly limited. The level of certain agricultural exports (pineapples,bananas, and palm kernels) dropped dramatically since independence and at present exports consist of coffee and limited quantities of pineapple and mango (see table below).

Table 1.

Volume of Agricultural Exports, Selected Years, Metric Tons, 1960-1988

Year	Coffee	Banana	Pineapple	Palm Kernel	Mango
1960	16,000	55,000	5,000	23,000	--
1970	4,650	NA	8,200	13,000	--
1980	3,000	0	900	15,000	500
1982	1,250	0	750	12,300	300
1984	300	0	200	150	--
1986	4,500	0	--	2,500	120
1988	5,700	0	800	--	350

The post Sekou Touré government, known as The Second Republic, has instituted ambitious and widespread policy changes with respect to marketing and trade to correct for past market distortions. The Government's primary objective is to develop and support a market-oriented economy. The Government has decontrolled prices, privatized trade, eliminated road blocks, liquidated most marketing and trade parastatals, simplified import and export procedures, and allowed producer prices to rise to more attractive levels. As a result, marketing activity has increased although logistical difficulties and lack of credit continue to inhibit farmers and traders from increasing quantities marketed. The ambitious road rehabilitation and construction program is designed to facilitate transportation and improve the marketing infrastructure. However, access to credit remains a critical problem. Farmers need capital to invest in their farms and increase productivity, while traders need credit to finance their purchases of farm products (both inputs and outputs) and to be able to invest in agricultural processing equipment.

4. Summary of USAID/Guinea Program

Between 1985 and 1990, USAID invested in a number of project and policy reform activities which focused on reducing the role of government and promoting the private sector. USAID has had a two-fold strategy for assisting in the development of agricultural marketing. First, USAID/Guinea's Africa Economic Analysis Policy Reform Project (AEPRP) has helped

the Government to establish a business environment that is attractive for investment and provides for the free exchange of agricultural commodities and inputs. Second, the USAID-financed Private Agribusiness Preparation Project created and supported the National Agribusiness Promotion Office, which in 1985 became the *Centre national de promotion des investissements privés* (CNPIP).

Under AEPRP, USAID provided $10 million in non-project assistance and $8.5 million in project assistance to support the liberalization of private markets in rural areas. A first tranche of $5 million was released in 1987 upon the satisfaction of conditions the GOG met concerning liberalization measures related to agricultural pricing and marketing policies. The second tranche of $5 million was never disbursed because the GOG failed to close down four parastatals, and therefore did not meet the conditions of the grant agreement.

Through the USAID-financed portion of this project, CNPIP helped conduct seven investment profiles related to agribusiness in Guinea. These profiles provide valuable information concerning problems and constraints related to agribusiness investment opportunities. The titles of the studies are listed below:

- Fresh Pineapple Export Project Study
- Livestock Production and Export Study
- Coffee Industry Investment Study
- Rice Industry Study
- Fruit Industry Study
- Roundtable on the Investment Climate in Guinea
- Integrated Poultry Venture

Agriculture is the sector with the most potential and where Guinea's future growth in income and employment will likely stem. Through the Agricultural Infrastructure Project, which began in 1988, USAID is rehabilitating and repaving 104 kilometers of roads which link the capital to the agriculturally productive regions to the north.

Under the Food for Progress program, Guinea received 100,000 MT of rice that it was allowed to sell in return for undertaking liberalization of the rice distribution system. By 1988, the private sector had assumed full responsibility for the import, storage, distribution, and sale of all imported rice.

USAID/Guinea also supported the economic reform program through training (in-country and third country) for private sector activities and privatization. In addition, USAID implemented a financial management project which provided institutional support in the form of technical assistance and training to the Ministry of Agriculture's Financial Management and Administrative Division for improving management and monitoring procedures.

USAID supported the USAID-Guinea Business Alliance for one-year from March 1990 to March 1991. The Alliance brought together U.S. investors and Guinean entrepreneurs by

sponsoring investment promotion tours. Among the interested U.S. firms was Beatrice which looked at the possibilities for processing crushed pineapple for export to Eastern European countries. While USAID no longer provides funding, the Alliance continues to act as an information clearinghouse.

Recent activities in the USAID/Guinea portfolio include the Agriculture Marketing Investment Project (AMIP) which was signed in July 1992. The general goal of AMIP is to help financial intermediaries function more efficiently in support of the agricultural sector by mobilizing domestic savings and channeling them into medium and long-term investments. The project has two components: the creation of a business advisory center which will provide business services and support targeted to agribusinesses. Technical assistance will be provided to business groups, private investment promotion entities, and banks to enable the private sector to develop bankable loan projects for commercial bank lending. The second component involves USAID providing a guarantee fund in which 50% of loans by commercial banks will be guaranteed. AMIP is a 5 year, $20 million program expected to become fully operational in October 1992.

5. Syntheses

5.1 Approaches to Agribusiness and Agricultural Marketing

The USAID/Guinea approach to improved agricultural marketing and agricultural business is largely a policy reform and institutional approach that combines advisory service, training, and technical assistance. The most significant activity for the mission is the Agricultural Marketing Investment project which aims to increase private investment in the agricultural sector by strengthening business advisory and investment promotion services in order to expand production, processing, and marketing. Project funds will be used to support policy reforms and other incentive measures, and provide capital for commercial bank loans.

5.2 Lessons Learned

The lessons learned by the Mission in implementing its program, especially in the period of the Second Republic, are reflected in the constraints identified as obstacles to achieving sustainable, market-led economic growth. These are: 1) uncompleted macro-economic policy and sectoral policy formulation and implementation; 2) a culturally defined world view which militates against decision-making, risk-taking, and financial management transparency; 3) deficient public and private sector institutions; 4) an alarming population growth rate; 5) inadequate infrastructure; and 6) a weak human resource base.

USAID/Guinea is in the process of reviewing and refining strategic objectives under its country program strategy. There are three strategic objectives which have been formulated so far:

1. Increased marketed private sector output for specific commodities.

2. Increased abilities of families to determine household size.

3. Improved quality and increased enrollment in primary schools with special emphasis on rural and female participation.

The Mission's first strategic objective is focused on agricultural marketing which is considered to hold the most potential for contributing to sustainable and equitable economic growth. To achieve the objective of increased private sector output, the Mission intends to focus on four defined targets, for which specific activities are planned:

Target 1: To create an enabling environment for agricultural marketing. The primary vehicle to achieve this is the Agricultural Marketing Investment project.

Target 2: To lower costs of agricultural marketing. USAID is and will continue to support investments in transportation infrastructure. At present, USAID is assisting the GOG in upgrading the primary road system and improving secondary roads. A third activity already undertaken has been to improve the quality of farm-to-market roads.

Target 3: To improve sustainable management of natural resources for marketed production.

Target 4: To increase viable rural-based small-scale enterprise (SSE) activity

5.3 Agribusiness Indicator Measures

USAID/Guinea is developing agribusiness indicators related to Target 1: To create an enabling environment for agricultural marketing and Target 2: To lower costs of agricultural marketing, which are to be incorporated in the CPSP upon finalization. Examples of selected indicators that have been preliminarily identified in draft documents include some of the following:

- Increased foreign and domestic private investment in agricultural production and marketing (Target 1).

- Increased intra- and inter-regional movement of agricultural produce, inputs, consumer goods and people (Target 2).

5.4 Information Gaps/Needs

Data collection is weak in Guinea, and agricultural statistics are sparse and often contradictory. Except for surveys undertaken as part of specific projects, there is a very little

historical data available although the GOG conducted an agricultural survey in 1988-89 which has provided decision-makers with better baseline information. This survey or *Recensement national de l'agriculture* was carried out through the FAO which developed a field-tested approach that could be used for follow-on survey work.

In order to establish a permanent data collection capability, the government has created the *Système permanente des statistiques agricoles* (SPSA) which is located in the Ministry of Agriculture and Animal Resources (MARA). The SPSA is responsible for collecting data on production, area, yields, marketing, livestock numbers, input use, prices for inputs and agricultural products and family demographics. Unfortunately, the SPSA lacks the resources to adequately input and process data collected from large survey instruments. As a result, information on market participants and marketing flows is almost non-existent. Recent work includes:

- The A.I.D-financed Agriculture Sector Assessment which outlined long-term prospects for rural development in Guinea and recommended specific areas for AID intervention;

- A World Bank financed study of the comparative advantage of smallholder production which included a brief analysis of the marketing system in Guinea, including some limited data on market flows (Weaver, 1987);

- A UNDP-financed study of commercial channels and distribution in Guinea, undertaken through UNCTAD (Filippi-Wilhem, 1987);

- A UNDP socio-economic survey on important aspects of each prefecture in Guinea. The study collected information on population, demography, trade, important economic activities, agricultural production, infrastructure, health and other public facilities, financial resources, and existing projects. The market system for each prefecture was described, including maps, market channels, numbers and kinds of traders, and commodity flows;

- A FAO report on perennial crops, most of which are also export crops -- coffee, mango, papaya, passion fruit, grapefruit, and palm oil; and

- A World Bank appraisal report for a proposed agricultural export promotion project.

While reliable statistics have not yet been compiled on the type and quantity of marketed surplus production, the above studies have provided some basic information on the direction of trade flows and the kinds of goods traded. USAID gave thought to conducting an in-depth analysis of the agricultural marketing system, analyzing market structure, operations, and performance.

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ANNEX H

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN MADAGASCAR

1. Introduction

Madagascar was selected as one of the countries for assessment for several reasons. First, it was chosen because of its unique island location and the wide range of production capabilities made possible by the diverse climatic conditions. Second, the USAID Mission has recently initiated agricultural marketing activities. Third, Madagascar has been undergoing significant economic reform in recent years. Indeed, in 1982, in an effort to reverse 10 years of economic decline, the government of Madagascar (GOM) began introducing one of the most comprehensive liberalization programs in the world. Agricultural market liberalization has since had a notable effect on the organization of and behavior in rural markets (see Kristjanson et al., 1991). Fourth, scrutiny of the environment for business and agricultural production will provide an interesting set of variables in addition to the set of cases included in this study, and review by the Mission will enable it to learn from other USAID experience.

USAID/Madagascar has only been a Class A Mission for the past two years, and accordingly its programs are small and exploratory. This annex reviews the agricultural marketing dimensions of USAID/Madagascar's developing portfolio. It discusses the following programs:

- The Madagascar Agricultural Export Liberalization Program (MAELP)
- The Madagascar Agricultural Export Liberalization Support Program (MAELSP)

2. Key Indicators of Economic Performance

Madagascar is primarily an agricultural economy. Agriculture's contribution to GDP rose from 31 percent in 1965 to 41 percent in 1988 and currently employs 80 percent of the labor force. The sector supplies the primary inputs to the food and textile industries, which together account for 75 percent of the value added of the industrial sector. Agricultural exports account for at least 80 percent of total foreign exchange earnings. Over two-thirds of the total value of agricultural exports comes from four crops--coffee, vanilla, cloves and pepper.

However, despite the positive movement in many sectors, including a 4 percent aggregate GDP growth rate in 1989, Madagascar continues to rank as one of the world's poorest countries. Several persistent problems such as high infant mortality (97 per 1,000), rapid population growth, and environmental degradation (over 80% of the original forest cover is gone) threaten the ability of development efforts to sustain a positive impact.

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	8.7	11.7	
Annual Population Growth Rate			3.0%
Urban Population Growth Rate			6.4%
Urban Population/Total Pop	18%	25%	
Per Capita GNP	$ 350	$ 230	
Average Annual Growth in GDP			1.1%
Inflation Rate			17.1%
Debt Service (% of Exports)	7.4%	47.2%	
Ag. Sector Contribution to GDP	36%	33%	

Source: World Bank Development Report, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. Economic Reforms and the Agricultural Marketing System[1]

During the 1960s trade in agricultural commodities and inputs was dominated by ethnic Chinese, Indians and Pakistanis in a free market setting. In the 1970s, the GOM began nationalizing trading companies and state agencies took over most of the marketing of crops and selling of goods to farmers. The Ratsiraka Government pursued policies that effectively turned the intersectoral terms of trade against agriculture. Madagascar went from exporting rice to importing it during this period. Rather than reinvest export crop earnings in the agricultural sector, the GOM funded university construction and food subsidies to urban consumers. Clandestine trade, often a parallel market for export crops in mainland Africa, was minimal due to Madagascar's island situation. As an island, shipping and air transport are the only transport systems that can be used, resulting in transport and dock-side storage constraints. Its position on the southern end of the east coast of Africa added to its isolation from European and American markets.

By the early 1980s the inability of the state-owned system to purchase crops and supply farmers with agricultural inputs in a timely manner became clear. As a result, private traders

[1] This section is largely derived from the Kristjanson et al. report The Rural Marketing System in Madagascar, October 1991.

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were again allowed to provide these services. This was part of a major liberalization program designed to return the economy to more of a market orientation. Many of the approximately 25 agriculture-related, state-owned enterprises in Madagascar have undergone divesture of part or all of their operations under the structural adjustment program. Some, such as the rice parastatal SOMALAC, have differentiated their activities, providing canal maintenance and research and extension services, while commercial divisions have been privatized (Hough et al., 1987; Kristjanson et al., 1991).

Other recent policy reforms aimed at removing major economic distortions have brought limited success to the agricultural sector. All export crops except vanilla have undergone full internal and external trade liberalization. Internal prices for paddy and rice have been progressively decontrolled. The GOM eliminated floor prices for traditional exports in 1987, introduced a new investment code in 1989, devaluaed the Malagasy franc (FMG), instituted an open license import regime, and undertook other structural adjustment efforts. Although the agricultural sector as a whole has grown by 2.8 percent annually since 1984, performance has been mixed, with some subsectors such as fisheries and livestock showing major growth, while the crop output grew only 1.5% annually. Non-traditional crop exports have expanded, but internal marketing problems such as poor rural infrastructure and poor access to market information and government policy changes have prevented full participation in the marketing chain by much of the population.

The World Bank (1991) identified the following major constraints:

- Macro-economic policies and continued Government intervention in price formation in certain markets;
- Non-price constraints such as limited numbers of buyers, passive market participants, and weak public expenditure, policies, and policy implementation.

The World Bank attributed the poor performance of the internal agricultural market to, *inter alia*, poor transport, communication and input distribution systems as well as local government inefficiencies.

4. Summary of USAID/Madagascar Programs in Agricultural Marketing

This section reviews USAID/Madagascar's programs and projects. As indicated above USAID/Madagascar has only been a full Mission for the past two years. Due to the pervasiveness of high infant mortality rates and environmental degradation, USAID's primary objective is to assist Madagascar in increasing incomes and quality of life, while simultaneously conserving the natural resource base. Towards these ends, principal strategies of the Mission are to support the liberalization of agricultural exports and improve production techniques of small farmers, especially in rice. Child survival and population control are key targets of assistance, as well as a comprehensive new program in natural resources aimed at developing

policies to strengthen the capacity of the government, PVOs and community-based organizations to protect the environment.

USAID/Madagascar's past portfolio has included mir .nal agricultural marketing projects, with the exception of the MAELP (Madagascar Agricultural Export Liberalization Program). MAELP was a non-project assistance program which aimed to reduce policy and procedural impediments to external agricultural markets. It supported liberalization of key exports for Madagascar's traditional cash crops of coffee, cloves and pepper, and it made foreign exchange available for the operation of the liberalized foreign exchange allocation system.

The current activity in this sector consists of the MAELSP program (Madagascar Agriculture Export Liberalization Support Program). This program began in 1990 when Madagascar had just completed major economic liberalization reforms after a period of state *dirigisme* and restrictive economic policy. MAELSP will runs until the second half of 1995.

MAELSP has three functional components:

1) commodity export development;

2) identification of remaining constraints and of new approaches and opportunities in agribusiness; and

3) training of agro-entrepreneurs.

It is designed to support policy studies, commodity subsector analyses, trade linkage activities for emerging export opportunities, workshops for market participants and importers, institution building for business training, and data collection. MAELSP operates through short-term activities contracted with various projects such as APAP, AMIS and GEMINI. Under the commodity export development component of MAELSP, AMIS is in the process of executing a study of non-traditional exports which will continue through the end of 1992. Currently in phase two, the AMIS buy-in consists of performing commodity subsector studies for two commodities (dry beans or *pois de cap* and a second commodity) and ascertaining market opportunities in Europe and other island nations in the Indian Ocean, such as the Seychelles, Mauritius and Réunion.

Given the largely liberalized economy, the role of the project is to help the private sector take advantage of opportunities in agricultural export markets. In the immediate future its objectives are to gather and analyze information regarding the market environment and constraints to agribusiness development. In the longer term, it will provide the foundation for a larger project effort based on the accumulation of experience and background knowledge gained in the course of the various activities supported during the initial phase.

Given the recent nature of work in this sector, it is too early to draw lessons from activities to date. However, in concert with studies and pilot tests that are underway, the report

itself can serve as a useful guide to the Mission as it develops its long-term strategy and begins to contemplate specific project design activities. It is particularly timely given the fact that market liberalization and policy reform have been initiated (with varying degrees of success). The next steps enabling market participants to take advantage of the reforms need to be developed. Currently, market analyses show that opportunities are blocked by many constraints as noted above; this study will provide an analysis for MAELSP of significant lessons learned in other countries that can be used as a starting point for program planning.

5. Assessment of Information Needs/Gaps

As USAID/Madagascar has not yet had programs addressing agricultural marketing issues beyond what has been described above, a discussion of "Approaches", "Lessons Learned" and "Agribusiness Indicators" is premature. However, a brief discussion of the private sector's needs for information and AID/W's role in filling information gaps may assist the Mission in identifying its needs for project design.

5.1 Madagascar's Private Sector

The emphasis on export trade by USAID supposes a certain level of sophistication or the availability of basic knowledge on the part of private market participants. However, if this knowledge is not available, USAID efforts to develop trade linkages will meet with minimal success. Therefore, part of any program designed by donors to improve export trade should verify the current capacity of the market participants. For example, are traders aware of quality and packaging requirements in their markets? If they are aware of these requirements, how easily can they access such information? How up-to-date and reliable are information sources? Similar questions need to be addressed for all links in the marketing chain (i.e., are farmers aware of quality, size, variety preferences of buyers?).

If a project includes local market expansion, then other kinds of information would be useful to market participants. Such information could include knowledge of deficit areas, price levels in different regions of Madagascar, available services and service providers (i.e., cooperative institutions, research/extension facilities and services, transportation suppliers, packaging suppliers, etc.), and policy reforms affecting their businesses. Once the existing level of knowledge is established and knowledge gaps identified, projects can be designed to provide training and technical assistance needed to compete in world or regional markets for specific subsectors or improved access to market information across commodities if appropriate.

5.2 USAID/Madagascar

The MAELSP program is intended to help USAID/M identify its information needs, as well as fulfill some of them, in preparation for consolidating a strategy and designing a program

that can best address agricultural marketing in Madagascar. Since this program is still in the embryonic stage, some suggestions for research are found below:

- How does an island economy and agricultural marketing system differ from a mainland economy and marketing system, and what (if any) are the implications for trade? Persons knowledgeable about similar island environments such as Caribbean countries, Sri Lanka, and the Comoros, would be potentially valuable adjuncts to any study performed.

- Parastatals in Madagascar are struggling to define their new roles, or indeed, to justify and maintain their existence. What role — regulatory, information-generating and disseminating, liaison, extension — might a governmental entity reasonably hope to play in a liberalized, privatized market? How should the parastatals be reorganized and incentives created to develop such roles? How can information and services be distributed to users on a sustainable basis? What management changes will be needed in the institutions to respond to their new mandates?

- If private sector information needs are identified as above, what can USAID do to assist in fulfilling these needs or facilitating others in providing these services?

- Neither local or central governments or private institutions/services are providing support such as road maintenance, legal and contractual expertise, credit programs, market information, and cost-reducing technologies that would help make Madagascar's products competitive on the world market and provide risk-alleviating support to market participants. What parastatal functions can be spun off to the private sector? What should USAID's role be in helping build some of the underlying institutions necessary to move Madagascar towards functioning free markets?

5.3 AID/W

Many countries are addressing issues similar to the ones raised above. What programmatic leadership by AID/W is appropriate, and how can it best provide such leadership to the field? Information gaps that may need to be addressed by the Africa Bureau's ARTS/FARA before it can define and implement its role include identifying critical cross-cutting themes for research and prioritizing them, learning more about the experiences of other regions (e.g., Asia and Latin America) in market development, and assessing the usefulness of market information systems in developing country contexts.

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ANNEX I

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN RWANDA

1. Introduction

The choice of Rwanda as one of the countries to be investigated during this study reflects the country's uniqueness, from demographic and economic points of view. Rwanda, a small, densely populated, mountainous country, is landlocked and surrounded by Uganda, Burundi, Zaire, and Tanzania. Because of regional insecurity and internal strife, Rwanda's access to the ocean port of Mombasa (in Kenya) has been closed. Though the Government has been relatively stable, recent ethnic and political unrest have combined to jeopardize its fragile equilibrium.

Given its relatively favorable environment and resource base, Rwanda has been able to support a large population relative to the size of the country, although in recent years agricultural production has begun to decline as arable land is being exhausted. Soil erosion and decreasing soil fertility (due to reduced fallow periods) have cause productivity per hectare to decline markedly. Families are dividing up the available land into smaller and smaller plots, and farming it at economically inefficient scales of production. Population pressures on land are threatening to reach the maximum limit of its carrying capacity.

USAID/Rwanda is attempting to assist the Government of Rwanda/GOR) to reduce fertility rates, while promoting public and private sector efforts to increase income. Program activities include policy dialogue and reform, small enterprise and private sector support, agricultural development, and natural resource management. Recently, the World Bank, in conjunction with a broad range of donors, has developed a structural adjustment program (SAP) of approximately $120 million, of which A.I.D. is providing approximately $25 million. A.I.D.'s participation in the SAP will replace much direct project assistance, which has been largely terminated or placed on hold due to political unrest and economic problems.

This annex will review USAID/Rwanda's agricultural marketing and economic policy reform programs (section 3). It will then summarize approaches used by the Mission, significant lessons learned, and information gaps and needs (section 4).

2. Key Indicators of Economic Performance

Rwanda's major cash crops are coffee and tea. Rwanda's market share for its coffee is no longer protected by the International Coffee Agreement and it faces low world prices which have had severe repercussions on the economy. The combined effect of economic shocks and poor domestic policies have resulted in the need for broad structural and policy reforms. Unfortunately, the GOR has been slow to implement difficult macroeconomic adjustments.

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A major GOR concern is the rate of population growth, and the pressure that it places on land and resource use. If population continues to grow at the current rate, Rwanda's population is expected to reach 9.9 million by the year 2000, creating serious environmental and subsistence problems throughout the country. Key economic indicators are shown in the table below:

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	5.1	7.1	
Annual Population Growth Rate			3.3 %
Urban Population Growth Rate			8.0 %
Urban Population/Total Pop	5%	8%	
Per Capita GNP	$240	$310	
Average Annual Growth in GDP			1.0%
Inflation Rate			3.8%
Debt Service (% of Exports)	4.2%	14.5%	
Agricultural Contribution to GDP	48%	38%	

Note: The third column shows the compound growth rate for the period 1980-1990.

3. Agricultural Marketing and Economic Reform Programs

Given the economic crisis facing the GOR, policy reforms that lead to improvements in agricultural marketing are critically needed. Recently, the Government of Rwanda (GOR) began to give priority to policies that aim to achieve greater food security through liberalization of markets, although GOR assistance to merchants and others in the agricultural marketing chain has been minimal. The GOR focuses its efforts on farmer production support policies. The continued existence of many parastatals prevents private sector development in the most profitable industries (including coffee and tea, the two major export crops). The private sector itself is extremely limited, with fewer than 200 indigenous enterprises that employ more than 10 people each, and there appears to be little of the merchant/trader/entrepreneur class that is fairly common in other African countries. (Kruse et al, 1991.) Donor-supported projects and programs related to private sector development, manufacturing and employment and marketing policy reform are intended to stimulate private investment and trade, especially in agriculture.

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3.1 The Rwanda Private Enterprise Development Project

The six-year, $5 million Rwanda Private Enterprise Development (RPED) Project, began in 1985, and was designed to: 1) stimulate a more dynamic private sector through diverse activities; 2) strengthen local private organizations available to provide services to the private sector, and 3) contribute to an improved policy environment. The last objective declined in importance upon commencement of the PRIME (Policy Reform Initiative in Manufacturing and Employment) project (see Section 3.2).

The project activities, implemented by TechnoServe, included a Business Advisory Service (BAS), a Management Assistance Program (MAP), an Enterprise Promotion Initiative (EPI), a Training and Institutional Development component (TID), and a Studies and Policy component. Initially the project's target population was agro-industries; however, because there are few such businesses, it was expanded to include non-agricultural enterprises. The BAS provided direct technical assistance to businesses on topics such as accounting system design, feasibility studies, credit application assistance, and cost analysis. The most productive relationship lasted for several years, resulting in a series of service requests, each building upon the last.

The MAP involved establishing a long-term, in-depth relationship from the beginning, resembling a temporary business partnership wherein a long-term advisor was actually working within the company or cooperative to strengthen its management. The advisor was gradually withdrawn as the organization improved its ability to manage itself and became more profitable.

The EPI developed later in the project as a response to the lack of entrepreneurial activity and diversity in Rwanda, and specifically to a dearth of agroindustries. The EPI was designed to identify new opportunities and help improve the efficient production/processing/marketing of commodities. The initiative took the commodity approach, first investigating the potential of over 100 products and eliminating all but about six. These new business ideas were introduced (in the case of new products), and new businesses were started to produce, process, and market these products (sunflower seed oil, lime, charcoal, mushrooms, mala milk, and seed potatoes). The EPI identified products, awakened the interest of the Rwanda business community, and assisted business start-up for these products.

The TID consisted of four components. The first included two- and three-day seminars on topics such as personnel management, financial statements, basic accounting concepts, and business start-up. The second activity was longer-term accounting training for Rwandans in Kenya. The third marked a change in strategy in response to the ability of the seminars to address the participants' needs. Focusing on specific commodities and industries, the new training strategy sought to address the technical and managerial aspects of running a business. Under this strategy professional associations could be organized and formalized, policy issues relevant to the industry could be raised with invited government representatives, and problem-solving based on industry realities could occur. The final component was originally intended to build local organizations' capacity to meet the private sector's business service needs in

Rwanda through long-term, mentor-like relationships with TechnoServe. However, the local organizations appeared reluctant to enter into such relationships, and the result was more ad hoc, situational participation in skill training activities designed to improve their training of trainers, program planning, and project budgeting and accounting.

The project produced very positive results, but quantifying success has been difficult, given the deterioration of the business environment in Rwanda since 1990, due to the war and the effects of the structural adjustment program on business investment and activities. RPED ended in September 1991 and no follow-on is projected.

3.2 The Policy Reform Initiative in Manufacturing and Employment Project

The Policy Reform Initiative in Manufacturing and Employment (PRIME) project began in 1985, with a current project completion date of 1993. Its goal is to stimulate private sector manufacturing and to assist the GOR in designing and implementing a series of policy reforms more favorable to the private sector, especially the small and medium enterprise subsector. It is not targeted at agroindustries, although some may benefit from project outputs, such as a revised investment code giving preferential treatment to small and medium enterprises, and new tariff regulations. However, its impact on agricultural marketing and agribusiness development cannot be easily determined as the thrust was manufacturing. Project documents do not make any distinction between agribusiness and non-agricultural industry.

3.3 Rwanda Production and Marketing Policy Reform (PMPR) Program

USAID is collaborating in the structural adjustment program launched by the World Bank and IMF in 1991. The SAP involves $120 million covering the financial gap in the first year of implementation of macroeconomic policy reform actions taken under the Policy Framework Paper (PFP) developed in conjunction with the GOR. Of this, USAID will provide approximately $20 million. Though USAID's interventions focus largely on the manufacturing sector, the impact of the projected reforms cannot be isolated from the agribusiness and agricultural marketing sector.

The USAID program has four components whose objective is to contribute to employment and production in the medium term in manufacturing and related sectors. The components consist of the following:

- Policy reform, supporting policy changes that address critical areas affecting the manufacturing and commerce sectors such as foreign exchange allocation and import systems, the restrictive trade regime, and government-controlled pricing;

- Resource transfer in the form of cash transfer to reduce real and perceived risks associated with the change from the current import system to a market-driven system;

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- Local currency generated from the resource transfer (equivalent to $25 million) to help reduce government arrears to private sector manufacturers, commercial concerns, banks, and other private suppliers; and

- Technical assistance for program monitoring and institutional strengthening to help ensure the timely monitoring of the impacts of the SAP and assess potential implementation problems.

The Production and Marketing Policy Reform Program is intended to support reforms ameliorating conditions in the business environment which have largely evolved as constraints to private enterprise development due to government dirigiste and quasi-isolationist policies. Conditions precedent to disbursal of funds are designed to ease the adverse manufacturing climate and to eliminate barriers to a market-driven economy. These reforms will also support the other macroeconomic adjustments being administered under the SAP and with other donors.

4. Syntheses

4.1 USAID/Rwanda Approaches to Agricultural Marketing

USAID/Rwanda has until recently been working to develop Rwanda's private sector through policy reform and technical assistance. Policy changes have been only marginally implemented, and much remains to be done through reforms planned under the SAP. The Mission's programs have changed in the past year to reflect evolving conditions in Rwanda. After technical assistance programs are terminated, there will be no further activities or new projects. Instead, USAID is focusing attention on the policy and regulatory constraints involving the effects of agricultural price policy, exchange rate policy, and macroeconomic variables affecting the business environment. Some of this narrowing of focus is due to security issues in Rwanda and the difficulties of providing technical assistance in the current chaotic environment, which is also aggravated by the change from a single-party to a multi-party system. In any case, the approach currently being implemented by the Mission appears to cover only one of the "elements" recommended by the Africa Bureau; i.e. reform of the macroeconomic and sectoral policies and regulations. (A.I.D., Strategic Framework, 1991).

4.2 Lessons Learned

The RPED and PRIME projects were two complementary activities that USAID/Rwanda undertook to address constraints to private sector development. The two projects were not managed in a coordinated manner; nevertheless, working on several fronts created movement in the direction of private sector development. Some generalizations can be made on the basis of project experience in Rwanda.

- A project with limited resources may wish to consider whether to address business development generically or within the context of a commodity

subsystem. In the case of RPED, resources were initially spent to assist agribusinesses in a general context, through short seminars and one-on-one technical assistance to discrete enterprises. Later, especially in the TID component, the project approached private sector assistance from a commodity/agroindustry point of view; arranging programs that pulled together many different players in the subsystem and maximizing the program's ability to deal with specific needs, constraints and problems facing that subsector.

- On the other hand, using a variety of approaches, especially initially, to get a handle on the complexity of the environment and the range of businesses and their problems, appears to have been useful. The use of the MAP, TID, EPI, BAS, and study components provided much insight into the workings of the private sector and made possible screening of various activities best suited to addressing the situations that were encountered. A longer project or a project follow-on would have been even more beneficial, as the less fruitful elements could have been discarded, and the most effective activities could have been pursued.

- A recurring theme in several countries including Rwanda is that projects attempting to assist agricultural market development prior to reforming the policy and regulatory environment are ineffective in the long run. The optimal sequence of activities may need to be investigated further, but initially it can be stated that at minimum policy reform should occur, even if technical assistance to the market infrastructure and participants is left until later. Some mix of policy reform and market strengthening is needed, as market participants do not necessarily know how to take advantage of new opportunities. In any case, improvements in the marketing system will clearly be minimal and short-lived if the policy and regulatory environment is unfavorable. Thus, attempting to address market system constraints without first or simultaneously addressing policy constraints is not advised.

- When a decision is made to address the marketing system through a commodity sub-system approach, initial investment must be made in determining which commodity(ies) should be targeted based on estimated returns to investment, ease of adoption or amelioration, and the expanded opportunities they represent. A second issue is that not only should the project be collecting primary data to make this decision, but entrepreneur development projects should make it part of their role to assist and train entrepreneurs to conduct market or feasibility studies. They should not do it <u>for them</u> as occurred in the BAS and EPI components.

4.3 Information Gaps and Needs

- Perhaps the largest question is what is the best mix of technical assistance and policy reform that USAID missions should build into their program strategies. A strategy may be based on the assumption that the capacity of the participants

is sufficient to respond to increased opportunities that will arise as a result of policy reform, but it is unclear how this decision is made or the factors and level of expertise that must be present to confirm the assumption. More knowledge about the evolution of market players and their capacity to respond based on their current level of sophistication is needed to help make programming decisions that balance policy reform with technical assistance (See 4.2.3 above). Further investigation is needed regarding the advisability of dropping all technical assistance and project assistance to the marketing system and participants, and concentrating on policy reform alone. Is the latter focus adequate to overcome the constraints to an improved market system? Are market players able to respond on their own to new opportunities created by the regulatory and policy changes which affect the business environment? Where do the key constraints (besides policy) to a more efficient market lie, and how can they best be addressed? Baseline data gathering and research analyses need to be conducted in this area.

- The implications of the change in program emphasis mentioned in Section 4.1 remain to be seen. Certainly economic and regulatory reforms will affect the agribusiness sector, but it is unclear how well the market participants can respond to widening opportunities without a broader program of assistance. The development of the private sector over the next several years should be scrutinized to ensure that adequate numbers of players can take advantage of the liberalized environment. It is clear that getting policies and prices right is a precondition for successful private sector development. Over the medium to long run, it is not clear that these "macro" adjustments are enough. USAID technical assistance to monitor program impacts is strategically wise and important.

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ANNEX J

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN SENEGAL

1. Introduction

Senegal was selected for study for several reasons, of which four are discussed here. First, the economy is agriculturally based and the agricultural sector can help to fuel economic growth. Second, the Government of Senegal (GOS) has demonstrated its commitment to economic reform in general, and agricultural policy reform in particular, by instituting the New Agricultural Policy (NAP) in 1984, the Cereals Plan in 1986, and the New Industrial Policy (NIP) in 1986. Third, USAID/Senegal has provided major grant funding for diverse projects and programs in agriculture throughout the 1970s and 1980s. Fourth, USAID/Senegal has recently completed its Country Program Strategic Plan which outlines how the mission's program is to focus on reducing population growth, improving natural resource management, and increasing liberalization of the market system.

This annex describes briefly the economic context of the country and reviews USAID support for activities related to agricultural marketing and agribusiness in recent years. It specifically discusses the following Non-Project Assistance (NPA) programs and projects in the Mission's portfolio:

- Non-Project Assistance: (1) The Macroeconomic stabilization/agricultural policy reform, through the series of Economic Support Funds (ESFs I-IX) program grants and PL-480 food aid; and (2) the fiscal and monetary policy reform program, through the African Economic Policy Reform Programs (AEPRP-I and AEPRP-II).

- Agricultural program projects: (1) the ISRA/MSU/USAID research projects; (2) the Agricultural Support Project; and (3) ISRA/MSU/USAID Food Security study.

- Private Sector/Transfer of Technology projects; (1) Community and Enterprise Development; (2) Transfer of Technology

- Training program.

2. Key Indicators of Economic Performance

Senegal is a West African coastal country that is also classified as a Sahelian country. The country lacks important mineral resources, except for phosphates, and therefore relies on agriculture, livestock, fishing, and tourism for employment, income and future growth potential.

In the more arid, northern region of the country, predominant economic activities are livestock grazing, supplemented by marginal dryland cropping of millet and cowpeas. Irrigated and flood recessional agriculture is important in the Senegal River Basin. The "Peanut Basin," which is located immediately south of the dry north, is the major production zone for peanuts, millet and sorghum, and also accounts for significant livestock production. The Peanut Basin in Senegal supports the majority of the rural population. The third major agricultural region (Senegal Oriental, southern Sine Saloum, and the Upper Casamance) is located east and south of the peanut basin and is the cotton-growing region of the country, although it also produces important quantities of millet, sorghum and peanuts. Livestock production is especially important in Senegal Oriental and Upper Casamance. The last important agricultural region is the Lower and Middle Casamance where agricultural production is characterized by traditional swamp rice production in low-lying areas and peanuts, maize, millet and sorghum in upland areas.

Horticultural production by small to medium sized farms in Cap Vert and the Niayes zone is a vibrant system, supplying Dakar and several Western European markets with fresh produce. The Senegal River Basin zone has good potential for horticultural production, if thousands of irrigated hectares come on stream during the remainder of the century. Benefitting from higher rainfall than other regions of Senegal, the Casamance has historically produced most of Senegal's bananas and citrus.

Key indicators of general economic performance are as follows:

	1980	1990	1980-1990
Population (millions)	5.5	7.4	
Annual Population Growth Rate			2.9%
Urban Population Growth Rate			4.0%
Urban Population/Total Pop	35%	38%	
Per Capita GNP	$ 510	$ 710	
Average Annual Growth in GDP			3.0%
Inflation Rate			6.7%
Debt Service (% of Exports)	28.6%	20.4%	
Ag. Sector Contribution to GDP	29%	21%	

Source: World Bank Development Reports 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. Economic Reforms and the Agricultural Marketing System

By the 1980s, as with many other Sub-Saharan countries, Senegal faced a deepening economic crisis caused by external factors (unfavorable weather and world economic conditions), as well as poor economic policies pursued since independence: heavy tariff protection and fiscal policies that inhibited productive sectors. As a result, with the cooperation of donors, the Government of Senegal (GOS) initiated a wide range of policy reforms in the framework of the World Bank/IMF Structural and Stabilization programs. In the agricultural and industrial sectors, the GOS initiated a New Agricultural Policy (NAP) in 1984, a Cereal Plan in 1986 to complement the NAP, and a New Industrial Policy (NIP) in 1986. USAID/Senegal participated actively in these reform programs.

The early (1980) Structural Adjustment Loan (SAL-I) was judged a failure because of poor rains, poor information regarding debts and arrears, optimistic forecast of economic recovery, and non-compliance (USAID/Senegal, February 1991). Subsequent SALs were more successful, and USAID/Senegal was "favorably impressed with the overall pace of reforms and the progress made by the GOS in the areas covered by ... USAID ESF program." In 1989 and 1990, the World Bank and the IMF also assessed the Senegalese macroeconomic structural adjustment as "broadly on track" (USAID, February 1991). To strengthen these results, however, Senegal and its partners have decided to pursue structural adjustment, through a SAL-IV and an Agricultural Sectoral Adjustment Program (PASA).

4. Summary of USAID/Senegal Program

4.1 Non-Project Assistance

The African Economic Policy Reform Programs. To support the GOS efforts to promote private sector expansion and to mobilize domestic resources through tax and tariff reforms, the fiscal and monetary policy reform programs have provided the GOS with budgetary support through two African Economic Policy Reform Programs (AEPRP-I and AEPRP-II). Counterpart funds were used to reduce government debts to private firms. Since 1986, the GOS has reduced tariffs, removed non-tariffs barriers such as quantitative restrictions, and revamped its business tax code.

The Economic Support Funds (ESF). The macroeconomic stabilization/agricultural policy reform programs implemented a series of Economic Support Fund (ESFs I-IX) program grants and provided PL-480 food aid. Since 1983, the ESP has provided grants for fertilizer imports and several structural adjustment grants to the GOS. The programs also funded studies on cereals and peanut pricing and on constraints affecting small- and medium-scale industries. In return, the GOS took measures to open cereal marketing to private entrepreneurs, end its management of peanut seed stocks, and liberalize wheat procurement. The PL-480 generated local currencies that helped support a phase out of the fertilizer subsidies. The program supported also the liberalization of local cereals markets, the amelioration of the cereals price

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information system, the improvement of applied agricultural research, and the transfer of food technology elaborated through the Senegalese Food Technology Institute (ITA).

4.2 Agricultural Projects

The ISRA/MSU/USAID Senegal Research and Planning Project. The goal of ISRA/MSU/USAID project was to enhance the capability of the Senegalese Agriculture Research Institute (ISRA) to mount and sustain effective research programs on cereal varietal improvements, farming systems research, and agricultural marketing policies. The Senegal Research and Planning Project (1983-1988) emphasized long-term training and applied economic research in farming systems research and agricultural marketing policy. A Bureau of Macroeconomic Policy (BAME) created by the project was instrumental in generating and disseminating relevant empirical policy research results. The subsequent Senegal Agricultural Research II (1988-1992) emphasizes more research on varietal improvement and cultural practices of coarse grain. The projects achieved significant success in many aspects: (1) training of ISRA agricultural economists; (2) publication of numerous working documents and research reports; (3) enhancement of ISRA's visibility; and (4) policy dialogue between ISRA researchers and key stakeholders (the Government of Senegal, the Mission, the World Bank, and private entrepreneurs).

The Agricultural Production Support Project (1987-91) had four priorities: (1) the privatization of input marketing and seed multiplication, through the restructuring of the cereals seed sector; (2) revolving credit for input suppliers, output traders, and agro-processing enterprises; (3) agricultural statistics to provide accurate cereals production data and production input usage data; and (4) a media program to support educational and promotional campaigns to expand available information for producers, consumers and traders. The project, unfortunately, could not achieve these ambitious objectives. Midway through the implementation, basic flaws in the original project design were uncovered and the project had to be terminated.

ISRA/MSU/USAID Food Security Project. The purpose of the study was to inform agricultural decision-makers in: (1) clarifying assumptions about farmer and trader behavior; (2) surveying how farmers, farmer organizations and private cereals traders intended to respond to the NAP; and (3) deriving alternative policy options using knowledge gained and anticipated effects of each option. As in all MSU/Food Security studies, the project uses the food system and commodity subsector approaches, and included collection of market prices and interviews of marketing participants.

4.3 Private Sector/Transfer of Technology

The Community and Enterprise Development Project. One distinctive feature of this project is its credit scheme that uses strict business criteria and the highest legal allowable

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interest rate. U.S. and local private voluntary organizations (PVOs) assisted village organizations through the provision of training, technical advice, and credit. As of March 1990, 314 enterprises (traders, producers, and manufacturers, and artisans) received some 464 loans totaling $2.3 million. The loans carry an average rate of 24 percent; the repayment of 90 percent is "well above anything realized in small enterprise lending in Senegal," according to USAID/Senegal.

Transfer of Technology Project. The purpose of this project was to support the introduction of new, improved technology and management practices, notably in the areas of agriculture, processing, and enterprise development. The project funded research studies (e.g., AMIS study on Horticultural Marketing and Export, Coarse Grain Processing in Senegal, and ISRA/IFPRI Agricultural Price Policy study still under way). The project also funded a pilot project in cowpea transformation, implemented by ITA, aimed at providing technical information on preservation, storage, and product development to improve the demand for cowpea and cowpea products.

4.4 Training Program

The purpose of the Mission's training program is to improve public sector management and develop new attitudes and skills in the private sector. Strong emphasis is put on the private sector. Local Senegalese business representatives assisted the projects to develop training to satisfy the needs of the private sector. The program helped the West African regional business school (CSAG) to develop a training program for entrepreneurs and worked with the Ministry of Commerce on the training of small retailers. The Mission paid attention to the gender issue in providing training for four women.

5. Syntheses

5.1 Approaches to Agricultural Marketing and Agribusiness

In the 1980s, in support of the GOS New Agricultural Policy, the Mission's main objectives in agricultural marketing and agribusiness were to: (1) reduce direct government interventions in favor of market incentives and expanded private sector involvement; (2) improve the adequacy and timeliness of agricultural input supplies essential to increased production; (3) increase agricultural research and provide better linkages to farmers, especially in support of cereal-based farming systems; and (4) become active in environmental protection, especially in reforestation and soil/water conservation. In pursuit of these objectives related to agricultural marketing and agribusiness, the Mission followed several approaches.

The Mission's marketing policy approach resulted in measures deregulating cereal marketing, liberalizing cereal and input prices, and privatizing agricultural input distribution. Its marketing function approach considered credit and information to market participants, and

training in business management for public and private market participants, including women. Its food security approach emphasized strengthening the analytical capacity of the national agricultural research institute in analyzing food policy measures, notably the determinants of food security, and providing production technologies.

The Mission intends to phase out several projects designed in the 1980s. It is now shifting its focus from selected activities in agricultural marketing, rural infrastructure, health, and technology transfer to natural resources and population. The Mission's new strategy centers on four objectives: (1) to decrease family size; (2) to increase crop productivity; (3) to increase value of tree production; and (4) to promote market liberalization (USAID/Senegal, February 1991). As such, the Mission has narrowed its approach to agricultural marketing policy. The Mission intends to support macroeconomic reforms and private sector development, but these activities must support its efforts to "increase natural-based income or decrease family size."

5.2 Lessons Learned

A combination of programs and projects were used to set the "enabling environment" in Senegal. ESFs, AEPRPs, and PL 480 Title I programs were used to support the Government's economic reforms. The AID/CDIE report on A.I.D. Policy Economic Policy Reform in Senegal sums up key lessons that apply to AEPRP-I, and other policy reform programs as well:

(1) negotiating and monitoring donor commitment to a set of reforms critical to USAID-sponsored reforms;

(2) establishing effective communication with the groups centrally affected by the reforms and envisioning appropriate mid-course adjustments;

(3) being sensitive to political events that can hinder the impact of the desired adjustment; and,

(4) coordinating competing donor agendas on the course of implementing policy reforms.

In drawing its own lessons from experience, USAID/Senegal found that its assistance was spread over too many geographical areas and activities. Its emphasis had shifted over time without sufficient analysis or sufficient donor collaboration. The Mission is now convinced that a better focused, multi-year framework will be more effective than annual ad-hoc programs.

There are other important lessons from Senegal's experience. In its attempt to expand access to credit for the private sector, the Mission used an innovative approach that relied on PVOs and the highest legal interest rates the market could bear. Despite the high positive interest rates, the scheme had high repayment rates. Such a credit scheme, however, demands close supervision and intensive management that the Mission has so far entrusted to PVOs. The Mission hopes that the participation of local PVOs will help build local financial capacity in

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Senegal.

The Mission was also instrumental in strengthening market information services, directly and indirectly. Directly, USAID/Senegal runs directly its own data collection on food consumer prices in Dakar markets. Indirectly, by supporting the ISRA/MSU/USAID's work, the Mission helped lay the foundation for market price data collection in Senegal. Several valuable lessons flow from the Senegalese experience on market information systems. They include the need to understand marketing systems for key commodities, how to go about selecting markets for data collection, improved methods of data collection and processing, data analysis techniques, methods of dissemination, and the importance of building local capacity (Ouédraogo and Ndoye, 1988).

5.3 Agribusiness Indicator Measures

One of USAID's four strategic objectives, and the one most relevant to agribusiness and agricultural marketing, is to increase liberalization of markets for agricultural and natural resource products. The performance indicator for this strategic objective is the reduction in the difference between internal prices for cereals and border prices plus marketing costs. This would result from the reduction in the marketing margin (retail minus wholesale) and narrowing of the price differential between local cereals and imports. The second performance indicator is an increase in the percentage of total agricultural product marketed by the private sector from 46 percent in 1991 to 56 percent in 1994.

The mission conducted a workshop in July-August, 1991 to develop a system of program information for strategic management (PRISM). The objective of the PRISM was to refine indicators for the mission's strategic objectives and targets as defined in the CPSP and to develop a monitoring and evaluation system for mission program activities related to population, crops, forestry, and market liberalization. Given the indicators developed, the data needs of the mission can be considered to be high and will draw on government reports, research papers, periodic surveys, various documents, and data gathered by other donors.

5.4 Information Gaps/Needs

To meet its information needs, USAID/Senegal has used a combination of Rapid Appraisals (e.g., by the AMIS project), feasibility studies of parastatals, and longitudinal studies (e.g., by ISRA/MSU and ISRA/IFPRI research projects). It has also used information collected by other sources, such as the World Bank and the French. Senegal is one of Sub-Saharan Africa's most studied countries. Despite all these studies, information gaps remain in agricultural marketing and agribusiness.

The overvaluation of the CFAF in Senegal severely affects the competitiveness of Senegalese agriculture. The Mission would like to encourage the revision of the CFAF

exchange rate, but thinks the issue must be addressed at the regional level by A.I.D./Washington.

In its Rapid Appraisal of the horticultural sector, AMIS recommended an examination of the constraints in international shipping of horticultural exports, the feasibility of expanding sea freight, the adequacy of post-harvest handling methods (and assessing needs in the upgrading of export marketing infrastructure), and the needed improvement in (institutional) coordination of exports.

In its own assessment of efforts to introduce new technologies in coarse grain and cowpea processing, USAID/Senegal found that pricing and access to markets impose severe limitations on demand for cowpea and coarse grain processed products. However, the Mission thinks that other donors have the comparative advantage in these areas.

In a rapid appraisal of coarse grain processing in Senegal, Holtzman (1989) found that "despite considerable sums spent on these programs, and significant effort allocated to data collection, analysis of the economic viability of these programs has been inadequate to date. There is a need to improve upon data collection, entry, management, and analysis so as to better monitor and assess the performance of ongoing experiments and the feasibility of expanding at least some of these efforts."

Although Senegal's market information system has improved over the years, a few gaps remain to be filled. What are data users' needs? How much analysis of the data is required by different users? How should system performance be assessed and upgraded to retain public funding for the system's sustainability?

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ANNEX K

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN TOGO

1. Introduction

Togo is a small, narrow country adjoining Ghana on the west, Benin on the east, Burkina Faso on the north, and the Atlantic Ocean on the south. Togo was selected as one of the countries to investigate as an example of an extremely small market with some advantages such as coastal access and until recently, relative political stability. A.I.D.'s program is small (approximately $3 million in 1987, increasing to $4 million in 1990), with a focus on improvements in economic performance by generating growth, especially by alleviating agricultural marketing constraints. The other major program area is in the health sector through the Child Survival Project. These two emphases comprise the major thrust of A.I.D. programming in Togo, with approximately three-quarters of the funding for agricultureal/rural development and one-quarter for child survival.

The Government of Togo (GOT) has subtly resisted moving to an open market, especially in cereal export. A major concern is protection of food security in the wake of regional drought and diminished crop production. Although the World Bank, IMF, USAID, and other donors are attempting to work with the GOT to reduce its management role in the market system, the GOT has resisted through quiet noncompliance (although GOT insists it is in compliance) with structural adjustment program (SAP) conditions and conditions precedent for USAID. Slow progress, however, has been made toward more liberal markets. The value of the Togo experience for this study is in identifying the causes of GOT resistance to reform and potential solutions that could lead to agricultural market growth.

2. Key Indicators of Economic Performance

Togo faces a heavy debt obligation with its external public debt at 81.6 percent of GNP in 1988. Agricultural production comprises 33 percent of GDP (1989). Two of the three main agricultural exports, cocoa and coffee, have suffered negative growth rates in the period of 1980-87 (-4.1 percent and -2.1 percent respectively), with only cotton increasing in volume of export growth during this period (though likely suffering as a result of the recent decline in cotton prices). Key economic indicators are as follows:

Key Indicators of Economic Performance

	1980	1990	1980-1990
Population (millions)	2.6	3.6	
Annual Population Growth Rate			3.5%
Urban Population Growth Rate			6.9%
Urban Population/Total Pop	19%	26%	
Per Capita GNP	$420	$410	
Average Annual Growth in GDP			1.6%
Inflation Rate			4.8%
Debt Service (% of Exports)	9.0%	14.1%	
Agriculture's Share of GDP	26%	33%	

Source: World Development Report, 1982 and 1992
Note: The third column shows the compound growth rate for the period 1980-1990.

3. A Review of USAID/Togo's Economic Reform Program

A.I.D.'s current program strategy to help redress the decline in economic growth and the mounting external debt involves policy dialogue and technical assistance. Two key projects, the Togo Rural Institutions and Private Sector (TRIPS) Project and the African Economic Policy Reform Program (AEPRP), are attempting to address the issues restraining liberalization and privatization of commodities, focusing especially on cereals export. A barrier to this focus however, has been the GOT's view of the SAP and the A.I.D. project as measures that address a specific set of circumstances (grain surpluses) not likely to prevail in most years. In order to respond to cereals deficits, the GOT prefers managing grain trade to avoid border leakages. A.I.D. and the World Bank, on the other hand, view their programs as progress toward an open market and liberalized trade regulations. This dichotomy of objectives has led to disagreement about whether conditions precedent have been met. Thus, USAID and the GOT have failed to come to terms on some issues of market liberalization which would benefit free trade, but would not necessarily protect the GOT's food security program in traditional fashion.

Togo historically has chosen to ensure food security through control of grain production and marketing. In 1980, the GOT banned all private cereal export. Even during the surplus period of 1984-85 when surrounding countries were suffering huge deficits, the parastatal Togograin controlled and limited export of grain surpluses. GOT's surplus control, application of price bands, and other market management activities have continued even under pressure from

external sources to privatize exports and liberalize markets. A large "paralegal" export market exists however, and even has semi-official recognition in that tariffs for foodcrop exports are applied at the borders. The GOT's unwillingness to officially recognize and support this trade, demonstrated in its slowness to grant export licenses except on a transactional basis, is thus discouraging, especially in light of grain surpluses. The project descriptions which follow look at the context and issues more closely.

3.1 TRIPS Project

A.I.D. is addressing its agricultural market development strategy mainly through the TRIPS project. The implementors, largely CARE and the World Council of Credit Unions (WOCCU), are involved in activities seeking to expand private sector participation through technology transfer, input distribution, agricultural marketing, and financial systems. Each program has separate activities as described below.

CARE's activities operate on three fronts: 1) training for public and private sector extension organizations, 2) strengthening rural producer groups, and 3) assisting private entrepreneurs in establishing and expanding businesses that respond to increased agricultural production. As the terminology indicates, this program was an agricultural production-driven strategy, based on the assumption that rural producers would respond positively to technological adaptations in farming methods if accompanied by adequate credit, reliable input supplies, and appropriate technical assistance. The assumption made as a basis for this approach was that higher production by farmers would strengthen the marketing system (Kaufman et al., 1991). The mid-term evaluation recommends dropping the assistance to producer groups, as this assumption has not been borne out in practice, and modifying other components that have not produced the required impacts nor operated efficiently. A most telling result is the lack of evidence that any activities mentioned above affected the private sector or its ability to respond to market opportunities.

CARE's agribusiness activities were originally intended to focus on agroindustries; however, fewer than half the entrepreneurs and only one group enterprise assisted were in this category. One of CARE's major problems appeared to be inadequate management and a lack of understanding of business development issues. For example, their credit program had no mechanism to reimburse loans made to entrepreneurs and farmers; over half the credit given is still outstanding. Considerable attention appears to have been paid to technical farming activities and little to the mechanisms needed to increase market and business initiatives.

One area reportedly meeting most objectives was training. However, while the number of trainees appears to have exceeded projections, an evaluation indicates that the training has not led to skills learned in the classroom being applied in the workplace. Other issues raised in the evaluation were the sustainability of CARE's training program, and its competition with other available programs. CARE charges below-market prices for training available through other sources, thus competing with the local market.

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The FUCEC (*Féderation des unions coopératives d'épargne et du crédit*), was the WOCCU's implementing branch for Togo's Credit Unit Development and Credit Policy activity. This activity was the second thrust in the Mission's program to assist entrepreneurs, rural associations, and *groupements agricoles* (GPAs). The TRIPS project provided capital in the amount of $494,000 to be delivered in two tranches. However, since little of the first tranche of $250,000 has been lent out, it is recommended that the funds be used for other purposes (Kaufman et al., 1991).

FUCEC has been training members and member groups in the use of credit. It was anticipated that applications for credit would result from these programs; however, due to FUCEC's poor accounting and tracking system, there is no record of how many members received credit, how large the loans have been, or what activities were covered. It was originally anticipated that CARE and FUCEC would cooperate as well, with CARE developing entrepreneurs and enterprise start-ups and passing them on to FUCEC to access credit. However, no collaboration has occurred.

A clear problem in this project has been the lack of focus on entrepreneurism and knowledge of mechanisms to assist business start-up and development. As mentioned above, the focus on production and market development was neither understood nor addressed in a systematic, technically knowledgeable manner. The Mission does not appear to have provided substantive technical guidance and leadership, either in the design of the strategies to develop micro- and small-enterprises, or in the subsequent years of project implementation although this was difficult to determine in the evaluation. Thus, the Mission's purpose in the TRIPS project, expanding the participation of Togolese private-sector institutions in agricultural and rural financial markets, was poorly served. Rather, direct attempts were made to address the project goal of raising rural incomes by increasing and diversifying agricultural output. Efforts to achieve this goal replaced the activity requirements. The goal should have been viewed as improving enterprise development and market efficiency. It is unclear whether the Mission attempted to make the distinction between agricultural production and market/enterprise efficiency to CARE during design and early implementation.

The evaluation pointed out a barrier to improved market conditions that had been unfulfilled by parallel activity under the TRIPS project. This component, to be implemented by the Ministry of Rural Development's Program and Planning Service (PPS), was intended to improve the environment for private sector development through workshops, policy studies, and seminars. None of the recommendations related to small-scale rural enterprise registration and the regulatory environment had been addressed as of the writing of the evaluation.

At least one unrealistic proposition for change in the TRIPS project was made in the evaluation. The evaluation called for complete cost recovery (i.e. sustainability) of the credit program which is rare under the best of circumstances. While cost reimbursement should occur, to expect the program to be self-supporting after two to three years is unrealistic. This expectation should be weighed against the issues of private sector development which are key to the project purpose. While there were definite problems in the credit component (as well as

other components of the project), guidance is needed to clarify the intended objective and identify the best path to achieve that objective, thus avoiding setting unrealistic targets that can result only in failure to meet the goals.

The TRIPS project should round out the Mission's portfolio on private sector development, providing a functional approach for improving market and market participant efficiency as a complement to the AEPRP policy reform activities. However, activities that have been designed and undertaken so far have not been technically sound, nor well-implemented. Without an understanding of the broader picture of private sector development, the project is a series of isolated and floundering efforts that fail to use the potential synergy from policy reform, credit delivery, and technical assistance to the sector.

3.2 Africa Economic Policy Reform Program

The Africa Economic Policy Reform Program (AEPRP), initiated in August 1986, consists of four components: 1) a legal-regulatory change to begin issuance of export licenses for food crops to private traders, 2) private sector credit to encourage the production, marketing, and export of food crops, 3) budget support for two governmental functions that support food-crop exports: rural roads and agricultural production statistics, and 4) expatriate technical assistance to build capacity in policy analysis. The Program Grant Agreement with the U.S. is known as the "Cereals Export Liberalization in Togo" (CELT) Program, although its mandate has expanded beyond cereals by mutual agreement.

A key problem, as mentioned above, is an apparent disparity between the objectives of GOT and those of A.I.D. in implementing this project. GOT interpretation of measurements and selection of methods for determining levels of surplus allowing export trade have led to the conclusion that surpluses are inadequate to allow private export while ensuring food security. The GOT has thus limited the number of export licenses granted (only three for a total of 97 tons of cereals in 1987). Consultants state that the methodology used to analyze the data is faulty (Fraenkel, 1988).

At issue also may be the GOT's fear of losing income from its control of the surplus market, and its subsequent reluctance to turn the surplus over to private sector entities, which the GOT believes would mean lost governmental revenues. The GOT is not convinced that an increased tax base as well as export tariff revenues accrued under this privatization could substitute for the "lost" primary revenue, and that allowing traders to practice arbitrage in a larger, legal environment could be a long-term benefit.

Interestingly, certain private traders appear reluctant to lobby for liberalization of the export market as well. Clearly some systems and lines of cross-border trade are functioning well, although the volumes are relatively small. Customs tariffs and "expediting taxes" (under-the-table) are relatively innocuous and manageable. If made official, some traders feel that tariffs will rise, along with other restrictive measures, increasing the overall payment burden and

thus decreasing the trader's margin, which is already small due to an overburdened CFA franc that makes Togo commodities high-priced in non-franc zone markets (Fraenkel, 1988). The infrastructure and legal environments do not allow modern, high-volume enterprises easy entry into the illegal marketplace. There is some speculation that the petty traders who are the majority of illegal exporters desire and even lobby for the *status quo* ("certain market women are reputed to have political clout in government circles." Fraenkel, 1988).

4. Synthesis

4.1 Approaches to Agricultural Marketing and Agribusiness

USAID/Togo uses policy reform coupled with technical assistance to work with agricultural markets and agribusiness development. Recognizing that barriers to improved efficiency and increased production are rooted in the government-controlled agricultural marketing system, USAID is working with other donor policies (most notably the SAP of the World Bank) to improve the business environment. At the same time, it is working at the grassroots level to help producers and entrepreneurs (traders, input suppliers, credit facilities) enhance their ability to respond to new opportunities. One issue, however, is that more attention is being paid to producers than to entrepreneurs, and the activities which should be addressing enterprise and entrepreneurial development have had minimal success.

4.2 Lessons

Some conclusions can clearly be drawn from the agricultural marketing and policy reform project experience in Togo.

First, differences between the Government and the donors regarding policy reform goals and project activities have undermined the effectiveness of implementation. Clearly all participating parties need to understand and agree with the long-term objectives for certain reforms, or these are compromised in the implementation process. The GOT's goals for policy reform were limited by time and the conditions prevailing to dealing with specific results of their overall managed market policy. They neither understood nor were convinced of the potential of the strategy that A.I.D. and the World Bank were promoting to create open markets and to liberalize trade.

Second, it cannot be assumed that incentives for traders and private sector participants in a "free market" are adequate to overcome the status quo of the current managed market system. The existence of a parallel though illegal market with higher risks but fewer penalties (i.e. taxes and tariffs) than an official privatized export market (or any other deregulated system) may be adequate to deal with the current level of production/consumption. The extra-legal commodities export system in Togo has existed for years, and channels have developed that have minimal risk, known bribe levels, efficient arbitrage (in some commodities), and the GOT's tacit

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complicity. Informal traders do not like the idea of exchanging this system for an open formal market where licensing regulations are unknown, customs duties controlled, and income taxes more easily administered. Incentives for moving to a liberalized export market must be clear to both GOT and traders, and may entail special publicizing and interpretation of new regulations and consequent opportunity sets. In Togo, traders have not seen the benefits of export liberalization and therefore have not lobbied for it.

Thus, it is evident that grain market reform should be driven partly by private trader needs and perceptions of constraints and an empirical understanding of their incentive structure, as well as by free market ideology.

This experience confirms the assumption made in many other projects that production will not drive market development and that in fact increased production will result from increased demand (i.e., the ability and need emanating from the market for increased goods).

4.3 Information Needs and Gaps

Two types of information/research needs and gaps can be identified in the Togo experience: 1) those of the project designers and implementers, and 2) those limiting the growth and efficiency of the market itself.

Information Needs/Gaps of Project Designers and Implementors

- To what extent does the private sector or elements of it block market liberalization to protect their own interests? What level of incentives or other measures are needed to overcome this barrier, especially if it is caused by a few well-placed traders?

- There appears to be a lack of congruity between GOT and A.I.D. goals, which reflects a knowledge gap in how to interest governments in privatization (i.e. replacing current incentives for publicly held entities such as food security, resource control, and equitable distribution, with incentives that may be less apparent to the government such as increased efficiency of production due to market incentives and increased revenues and incomes in the long term). The gap here is in knowing how to make privatization attractive to governments and all participants in the liberalization process. What strategies have been tried, and what has been their success? A stakeholder analysis with incentive identification should be conducted.

Information Needs/Gaps of Market Participants and Host Country Government

- A major issue facing many countries is the lack of systematic, timely knowledge about market prices and transaction costs external to their own systems. The

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priority clearly is for traders to gain access to timely, reliable regional market information. As a small African country with an overvalued currency and low agricultural productivity, Togo is generally not competitive in international markets, so world market information is of little value to private traders. Yet improved regional market information would improve the capacity of traders (and producers) to respond quickly to intraregional trading opportunities.
Additionally, the GOT needs ongoing regional and international market information to tailor its security stock storage and trade policy decisions. Regional information on the levels of production in neighboring countries and analysis of the potential effect on agribusiness revenues under varying export scenarios would be a useful decision-making tool.

- The GOT needs a better method of forecasting cereal production. The current system, though apparently well-implemented, does not disaggregate data by region or take into account the Togolese consumer's product substitution flexibility. Surpluses in one commodity may make up for deficits in another, still allowing ample room for export, but the Technical Committee does not recognize this variation, assuming an inelastic demand for each commodity. The GOT has revoked export licenses even in surplus seasons, due to limited interpretation of the available data. The information gap is a knowledge gap on the part of policymakers, who do not fully understand how to analyze and interpret available data.

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ANNEX L

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN ZIMBABWE

1. Introduction

Zimbabwe has the largest and most diversified economy in the Southern Africa region, apart from South Africa. Zimbabwe was selected as one of the countries for initial examination because it represents one of Africa's few "success stories." Its performance in education, health, population control, and smallholder agriculture has been strikingly better than that of most Sub-Saharan countries. At independence in 1980, black Africans were primarily subsistence level farmers, producing only 13 percent of the marketed harvest. Now Zimbabwe's smallholders are responsible for over 60 percent of marketed maize and over 50 percent of marketed cotton and oilseed crops. The agricultural marketing system in Zimbabwe is relatively well-developed and organized, and offers lessons for other African countries attempting to accomplish similar goals. The Government of Zimbabwe also appears to be committed to a major shift in economic policies toward a market-oriented, liberalized economy and a reduction in the role of the state as a direct producer of goods and services.

In the 10 years since independence, Zimbabwe has focused its resources on equity issues by dramatically improving access to land and improved education, health, and agricultural services for a greater proportion of the population. However, this focus on equity contributed to poor economic growth, compounded by declining terms of trade, drought, and severe import compression. Despite an upturn in growth in 1988-90, the economy is under severe pressure due to low levels of fixed capital formation, a 2.9 percent population growth rate, inadequate private sector expansion, a huge budget deficit, and high unemployment. The Government of Zimbabwe agreed to undertake a comprehensive structural adjustment program in late 1990. In 1991, the donors (bilateral and multilateral) at an April Paris meeting pledged $U.S. 700 million for the first year of the Zimbabwe Reform Program, with the U.S. pledge amounting to $40 million of the total.

In the past, A.I.D. provided foreign exchange for the productive sectors and technical assistance to help build public sector institutions. In the agricultural sector, A.I.D. provided foreign exchange for imports of equipment, materials, and spare parts to stimulate new investment and better use of industrial capacity. A.I.D. simultaneously supported government policy designs to increase smallholder productivity through local currency support of projects addressing major constraints in that sector. A.I.D's new focus on the private sector is designed to help smallholders take advantage of policy reforms occurring under the structural adjustment program. This annex examines how agricultural marketing and agribusiness-related development and issues have fit into the projects and programs undertaken by USAID during the last five years.

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2. Key Indicators of Economic Performance

Although Zimbabwe's production is spread out over several sectors and well diversified, the economy still depends heavily on agriculture for employment and exports. The agricultural sector accounts for approximately 70 percent of employment and 40 percent of exports. Yet there is a marked bimodal distribution of farmland in the agricultural sector, where a small percentage of large farmers own a disproportionate share of arable land and produce a sizeable proportion of the marketed surplus.

Key indicators of economic performance include the following:

	1980	1990	1980-1990
Population (millions)	7.0	9.8	
Annual Population Growth Rate			3.4%
Urban Population Growth Rate			5.9%
Urban Population/Total Pop	21.9%	28%	
Per Capita GNP	$710	$640	
Average Annual Growth in GDP			2.9%
Inflation Rate			10.8%
Debt Service (% of Exports)	3.8%	22.6%	
Agriculture Contribution to GDP	12%	13%	

Source: World Development Report, 1982 and 1992.
Note: The third column shows the compound growth rate for the period 1980-1990.

3. The Economic Reform Program

The Government's Framework for Economic Reform outlines Zimbabwe's economic reform program. It identifies the key macro-economic constraints in Zimbabwe and provides for policy actions to address them over the five years of the program. The central program theme is enhanced reliance on market forces and a reduction in the role of the state, a major reversal of past GOZ policies. Many donors, including A.I.D., say Zimbabwe's economic reform program is the best in Sub-Saharan Africa. There are several reasons to take note of the approach of this program:

- It has an explicit timetable for reform against which to evaluate performance.

- It recognizes that specific sectoral initiatives (including agriculture) must accompany reform at the macro-level to make the package operational and to affect the economy.

- It recognizes that the GOZ role in the economy as a producer, a regulator, and a claimant on resources must be reduced and that controls have been largely counter-productive.

- Through its commitment to the establishment of a fully operational Open General Import Licensing System by 1995, the GOZ has recognized the importance of a market-determined exchange rate that provides a real incentive to exporters.

3.1 Zimbabwe Grain Marketing Reform Support Program

The Grain Marketing Reform Support Program (GMRP) has a $5 million cash grant from the DFA account to help the Government of Zimbabwe implement grain marketing reforms required to achieve structural adjustment objectives. FY 1991 Mission PD&S resources will complement the $5 million in non-project assistance to fund technical assistance in support of policy dialogue. A key element of the adjustment involves reducing Marketing Board subsidies as a means to reduce the national budget deficit. Support for reduced subsidies in the agricultural sector in the short term is expected to contribute to reducing the Government's overall role in the economy and increased reliance on market forces in the long run.

The program goal is to improve the welfare of rural consumers and producers by assisting the GOZ in moving grain marketing toward a competitive, lower cost private sector system resulting in lower consumer prices and higher producer prices. USAID's Grain Marketing Reform Program seeks significant, but limited policy changes in maize marketing, a sensitive area. Historically, maize has been marketed through a single channel, the Grain Marketing Board (GMB), which has operated as a highly effective monopsony, controlling over 80 percent of total maize trade. The GMB, unlike many parastatals throughout Africa, has been very efficient at collecting grain, even exporting surpluses in good years. However, the following problems have arisen, putting maize marketing issues on the agenda of the broader economic reform program:

- An increasing budget deficit (to which the largest contributors are the agricultural marketing boards, of which GMB is responsible for the largest portion);
- Inappropriate production signals; and
- Food insecurity for increasing numbers of people.

Unlike other African parastatals, inefficiencies are not the GMB's greatest problem. Since 1980, it has been expected to serve a larger number of dispersed, small farmers by operating an increased number of remote grain depots and collection points, raising costs considerably.

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The rationale for A.I.D's grain marketing reform program is to limit the potential negative effects of the necessary reduction of GMB deficits, and work with various GOZ and other institutions to ensure that the new maize marketing structure is consistent with budgetary sustainability; continued agricultural production growth; and the maintenance of national and household food security.

The goals of the program are to reduce the deficit of the GMB from between Z$40-75 million currently ($U.S. 1.3 - 2.5 million) to 0 by 1995; to restructure some aspects of the grain marketing system, including removal of restrictions that impede private traders' access to GMB grain; and to deregulate private maize movement in the drier areas of the country.

Specifically, the policy reforms sought under this program are as follows:

- Establishing an autonomous Board of Directors for the GMB;
- Legalizing the sale of grain from GMB depots to any buyer in any quantity;
- Allowing GMB "approved buyers" to sell grain in other channels than the GMB; and
- Expanding the role of GMB collection points to include the sale of grain.

The Mission is also seeking GOZ reconfirmation of its commitment to remove all restrictions on the movement of maize within the communal areas.

The dominance of the parastatal marketing system has severely hindered development of other markets in rural areas. In the case of maize, the lack of effective informal markets has contributed to the high rates of malnutrition in many areas of the country. In essence, existing Government regulations encourage grain outflows and restrict inflows, thereby inflating informal prices in deficit areas. The success of the program rests on the assumption that the private sector is better able than the GMB to reach grain producers and consumers in the more remote, drier areas of Zimbabwe (i.e. at a lower cost). The removal of barriers and disincentives to investment in rural grain storage, transport, and milling is expected to stimulate a private sector response, leading to the development of a reliable and more competitive marketing system. The GMB will still play an important, albeit reduced role, but it will be forced to compete with private sector grain marketing participants (although initially GMB will maintain its monopoly in the northern more commercialized farming sector of the country, Natural Regions I, II, and III).

The Mission and the GOZ agreed on the program components based on research done under the A.I.D.-supported regional Food Security Project. The analyses showed that for deficit households, the current system seriously restricts grain availability and inflates local prices. This project examined the paradox of sufficient national grain production but a high incidence of malnutrition, particularly in the communal farming areas. This research both led to the development of A.I.D's program and served as input into GOZ policy decisions, making the policy reform agenda an analysis driven process.

3.2 Zimbabwe Agricultural Sector Assistance Program

The Agricultural Sector Assistance Program (ZASA), initiated in 1982 and completed in 1991, aimed to facilitate access to information and counterparts and increase the Mission's understanding of the key issues and constraints to sector development. This program involved budgetary support to the GOZ to implement policies aimed at improving the economic status of the smallholder by increasing smallholder agricultural productivity and on-farm income. Total funding was $45 million, with $30 million going for imports of production goods required by the agricultural sector (under a commodity import financing arrangement or CIP).

This targeted program attempted to expand smallholder production by addressing seven constraint areas: agricultural research, extension, training, credit, marketing and input supply, land and water use, and policy planning. The funds went to various projects and activities which were implemented primarily by the Ministry of Agriculture, the Ministry of Lands, Resettlement and Rural Development, the Agricultural and Rural Development Authority (which operates 16 GOZ-owned estates), and the University of Zimbabwe Faculty of Agriculture.

3.3 Regional A.I.D. Funded Activities

Both the SADCC/ICRISAT Sorghum and Millet Project and the Food Security Research Project have provided in-depth knowledge of the grain sector in Zimbabwe, focusing on constraints at all levels of the agricultural marketing system, unlike R&D projects that focus exclusively on production-level constraints.

While the primary focus of the SADCC/ICRISAT project is the development of new, higher-yielding, drought and pest-resistant varieties of sorghum and millet, the consumption and marketing issues have also been examined. For example, the SADCC/ICRISAT project has undertaken household-level surveys of producer and consumer preferences on new varieties of millet and sorghum.

The University of Zimbabwe and Michigan State University are collaborating on the USAID-funded Food Security Research Project. The UZ/MSU Food Security network is cooperating with SADCC's Food Security Technical and Administrative Unit and researchers in various SADCC universities to further policy analysis and develop African research capacity. The UZ/MSU project has undertaken applied research on staple crop production and marketing. Many of the "food security" issues addressed are in fact agricultural marketing and agribusiness issues. The aim of the research has been to better inform policymakers of the ramifications of proposed policy changes. The UZ/MSU research has succeeded in providing policymakers in the GOZ with the needed information and feedback in order to make well-informed decisions, and the entire process continues to be driven by analysis (rather than externally induced, as with many African countries undertaking structural adjustment reforms). Similar to the Food Security project in Mali, it has also provided the empirical base to better understand grain production constraints, producer and other marketing participant behavior, rural household food security,

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the operation and performance of grain markets, and constraints facing the development of private sector grain trade.

4. Syntheses

4.1 Approaches

A.I.D.'s approach has shifted from providing resources to the public for capacity building and policy reform in the mid-1980s (under ZASA) to a more private-sector oriented approach still focusing on policy reform, but with more emphasis on overcoming constraints facing the private sector as it increasingly takes over traditional public sector functions (e.g. grain marketing).

The Zimbabwe A.I.D. Mission is currently pursuing a policy reform approach paired with technical assistance in policy analysis, and has succeeded, relative to most African countries, in creating an analysis driven process.

Much of the research under the Food Security Research Project and other recent agricultural research projects (e.g. ZASA and the SADCC/ICRISAT project) in Zimbabwe focuses on agricultural marketing issues as well as production issues. The private sector approach and the focus on transportation constraints being pursued by the private sector office in the Mission are also essentially agribusiness/agricultural marketing approaches.

4.2 Lessons Learned

- Public sector investments, particularly in agricultural research, extension, and credit to smallholders, succeeded in dramatically increasing marketed output by smallholders.

- Data collection and analysis has preceded major policy shifts, particularly in sensitive areas involving food security (and in the case of Zimbabwe, maize marketing).

- Program components for the GMRP were agreed upon with the Government, based on research done under the A.I.D.- supported regional Food Security Project. This research both led to the development of A.I.D's program and served as input into the GOZ policymaking process, producing an analysis-driven process for implementing policy reforms.

- Regional research efforts make a lot of sense where agricultural marketing issues are strongly linked to intra-regional trade issues.

4.3 Monitoring

An integral part of the GMRP is a monitoring and evaluation plan to measure program performance and impact. Since a major aspect of the program is to demonstrate to the GOZ the benefits of opening up the grain marketing system, it is important to ensure that program impacts are well documented and that the GOZ is involved in the monitoring process. A critical issue is whether the private sector will fill the void left when the Grain Marketing Board (GMB) (a government parastatal) withdraws from certain activities.

Monitoring will be carried out at the input, output, purpose, and goal levels. Key assumptions will also be monitored. The latter is also important to monitor in case the expected positive impact of the program is not achieved, due to invalid assumptions rather than a wrong approach, for example.

The program goal of GMRP is to improve the welfare of rural consumers by assisting GOZ in transforming grain marketing into a competitive, lower cost private sector system resulting in lower consumer grain prices (as described in the PAAD, 1991). The sub-goal is to support implementation of policy and regulatory changes that will increase the availability of grain in rural areas by reducing market controls. Indicators of performance and impact at the goal and sub-goal level are as follows:

- A measurable decrease in average real consumer purchase prices for maize meal in informal markets in specific grain deficit areas.
- The number of private traders purchasing maize from the GMB in specific grain deficit areas and reselling through informal channels increases by at least 10 percent.
- GMB maize sales to informal buyers in deficit rural areas increases in volume by at least 10 percent.

The program purpose is to support specific policy and regulatory reforms which will reduce the impact of grain trading losses on national budget deficits and strengthen rural markets, thereby increasing real producer and consumer incomes. The empirical indicators measuring the impact at this level are as follows:

- GMB annual domestic trading deficit decreases by 10 percent from 23.8 to 21.4 million Zimbabwe dollars.
- The volume of maize sold to informal buyers at GMB depots in specific grain deficit rural areas increases by at least 10 percent.
- At least 20 percent of maize intake at GMB collection points adjacent to specific deficit areas is resold to informal buyers at the same collection point.
- The real income of producers in selected areas adjoining deficit areas increases by at least 10 percent.

- Average real consumer purchase prices for maize meal in informal markets in specific grain deficit rural areas decrease by at least 10 percent.
- Average real consumer purchase prices for maize meal in informal markets in urban areas decrease by at least 10 percent.

The monitoring plan included in the design of this program recommends that indicators be measured in specific areas (rather than the entire region) to minimize the cost and ensure the impact is measurable. Some of the information is available through GOZ sources, while some requires new surveys. It was recommended that A.I.D. hire a local private firm/consultant to be responsible for monitoring the impact of this program and working with GOZ Ministries to involve them in the monitoring process (since one goal of the program is to demonstrate to the GOZ the benefits of liberalizing grain marketing).

4.4 Information Needs and Gaps

- One information gap A.I.D. faced in designing the GMRP was insufficient information on the private grain traders and transporters in Zimbabwe, including the number and level of activity of traders and the constraints they face. A critical unanswered question is whether new private sector participants will step in once policy reforms are made.

- There was also an information gap between AID/W and AID/Z with respect to the beneficial role of marketing boards in the Zimbabwean context. AID/W was pushing for complete liberalization which does not necessarily make political or economic sense (getting rid of the GMB, for example). This is part of a larger issue facing many missions. Although complete privatization may not be desirable or feasible, "streamlining" may be necessary. This may involve contracting out some government services, joint ventures between governments and the private sector, turning over certain parastatal functions to the private sector (e.g. storage, transportation of grain).

- Better information about private agricultural marketing participants involved in each stage of activity, and the constraints they face (particularly new entrants) was needed in Zimbabwe.

- Additional research is needed to shed more light on the effects and consequences of:

  - Policy restrictions on grain movement,
  - Underdeveloped rural credit markets,
  - An underdeveloped road infrastructure,
  - The shortage of vehicles and spare parts (and the impact of loosening up vehicle and parts imports under the OGIL), and

-- Poor storage technology and seed characteristics (Example: under the current system, farmers have little incentive to store any grain on the farm. The policy changes will give them more incentive to do so, but technical assistance will be required in many cases so that losses associated with poor storage techniques are not too high).

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