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AGRICULTURAL MARKETING IMPROVEMENT STRATEGIES PROJECT

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Assisting AID Missions and Developing Country Governments
to Improve Agricultural Marketing Systems

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Deloitte Haskins & Sells,

PJ-ABR-860

**An Analytical Agenda
for AFR/ARTS/FARA in
Agricultural Marketing
and Agribusiness Policy,
Program Design, and
Applied Design**

DRAFT

December 1991

Agricultural Marketing Improvement Strategies Project

**Abt Associates
4800 Montgomery Lane
Suite 500
Bethesda, Maryland 20814**

with the

**Post-Harvest Institute for Perishables,
University of Idaho
Moscow, Idaho**

**Internal Draft Report
For Discussion Only**

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TABLE OF CONTENTS

PREFACE	i
1. Introduction	1
2. Characteristics of African Countries Selected	2
3. USAID Approaches to Agricultural Marketing and Agribusiness Development	2
4. Significant Lessons Learned from Recent Experience	9
4.1 Staple Crop Marketing Reform	9
4.2 Market Information	10
4.3 Institutional Reform	11
4.4 Investing in and Maintaining Infrastructure	12
4.5 Building Local Institutional Capacity	13
4.6 Technological Innovation and Technology Transfer	16
5. Monitoring and Evaluation of the Impact of A.I.D Agribusiness and Agricultural Marketing Initiatives	16
5.1 Examples of Indicators	23
5.2 Methodological Issues Related to Short and Long Term Market Efficiency Measures	29
6. Information Needs and Gaps	29
6.1 USAID Information Needs	29
6.2 Private Sector Information Needs	32
6.3 Data Gaps and the Role of the Africa Bureau	34
7. Lessons Learned from A.I.D. Promotion of Foreign Agribusiness Investment and Trade	35
7.1 Defining Agribusiness	35
7.2 The Choice of Approach to Trade and Investment Promotion	36
7.2.1 Importance of the Operational Environment	37
7.2.2 Targeted vs. Traditional Approach	37
7.2.3 The Information Imperative	38
7.2.4 On-going Technical Assistance	39
7.2.5 Local Supporting Institutions	39
7.2.6 Project Management	40

7.2.7	Cost Recovery by Local Implementing Institutions	40
7.2.8	Project Time Frame	41
7.3	Experience of the Africa Bureau's Office of Market Development and Investment (MDI)	41
7.4	The Role of Catalysts in Trade and Investment Promotion	42
8.	Promoting Domestic Agribusiness and Intraregional Trade in African Countries	43
8.1	Formal vs. Informal Sector Firms	44
8.2	Financial Requirements	44
8.3	Market Depth and Access Issues	45
8.4	Transport Costs and Their Effect on Trade Opportunities	45
8.5	Scale and Appropriate Technology Issues	46
8.6	Other Issues	47
	BIBLIOGRAPHY	48

LIST OF EXHIBITS

EXHIBIT 1	KEY ECONOMIC INDICATORS
EXHIBIT 2-A	EXAMPLES OF USAID APPROACHES TO AGRIBUSINESS AND AGRICULTURAL MARKETING DEVELOPMENT
EXHIBIT 2-B	THE AFRICA BUREAU'S STRATEGIC APPROACH TO PROMOTION OF MORE EFFICIENT AND COMPETITIVE MARKETING SYSTEMS
EXHIBIT 3	PERFORMANCE MEASURES FOR AGRIBUSINESS & AGRICULTURAL MARKETING INTERVENTIONS
EXHIBIT 4	AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS
EXHIBIT 5	SHORT-RUN AND LONG-RUN MEASURES OF MORE EFFICIENT AGRICULTURAL MARKETS
EXHIBIT 6	INFORMATION NEEDS

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 agenda 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 nine countries. The team envisages preparing another two country annexes in order to complete Phase I.

The second-phase will require field work in a subset of the ten African countries in order to conduct more in-depth assessments of local agribusiness capability, needs and opportunities, as well as providing an opportunity to discuss Phase I findings with interested Mission staff. The Phase II field work will be 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. A final set of deliverables is scheduled for mid-1992.

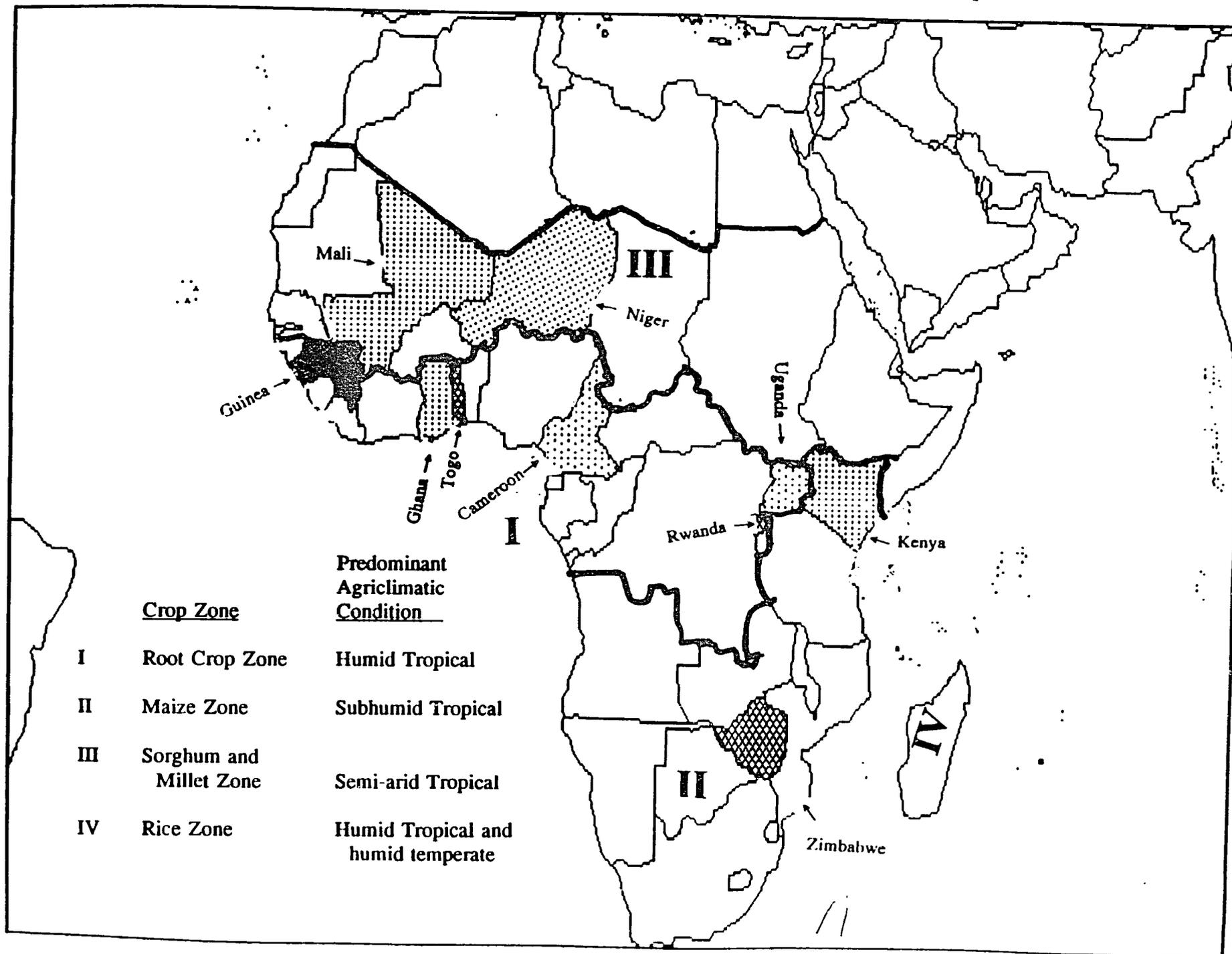
Preparing the Phase I interim deliverable has been a team effort. Responsibilities for specific sections of the synthesis and for the country annexes are listed below. The senior and coordinating author has been John Holtzman, Research Director of AMIS. Holtzman has been ably assisted by two deputy coordinating authors and activity task managers: Carol Adoum (September-November 1991); and Charles Stathacos (November-December 1991). Paula Hirschhoff, senior editor at Abt Associates, has reviewed and edited the draft report.

<u>Section of Report</u>	<u>Drafters</u>	<u>Technical Review</u>
<u>Synthesis Report</u>		
Sections 1-4	Holtzman	Stathacos
Section 5	Kristjanson, Stathacos	Holtzman
Section 6	Wittenberg	Holtzman
Section 7	Abbott, Erbacher	Holtzman
Section 8	Holtzman	Stathacos
<u>Country Annexes</u>		
Cameroon	Ouédraogo, Erbacher, Abbott	Holtzman, Stathacos
Ghana	Erbacher	Stathacos, Holtzman
Guinea	Stathacos	Holtzman
Kenya	Wittenberg	Holtzman, Stathacos
Mali	Holtzman, Adoum	Stathacos
Niger	Stathacos, Ouédraogo	Holtzman
Rwanda	Adoum	Stathacos, Holtzman
Togo	Adoum, Stathacos	Holtzman
Uganda	Kristjanson	Stathacos
Zimbabwe	Kristjanson	Holtzman, Stathacos

Interested readers should direct their questions regarding specific sections of the report to the appropriate author(s). General questions should be directed to J. Holtzman or C. Stathacos.

V

Map of African Countries Selected for Phase 1 Review (by Climatic and Crop Zones)



1. Introduction

This paper is an interim 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 agricultural marketing and agribusiness, using the Africa Bureau's A Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa (January 1991) as a point of departure.

This paper is a first phase deliverable based on work carried out in Washington in the first quarter of FY 1992. It is based on desktop review of selected USAID mission portfolios in agricultural marketing, agribusiness and agricultural policy. These countries are classified tentatively as follows:

- Francophone Sahelian: Mali, Niger
- 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

AMIS staff also drew upon previous and ongoing AMIS work, as well as other professional experience, in most of the 10 countries. Discussions with knowledgeable A.I.D./W staff also proved invaluable. Finally, AMIS gratefully acknowledges 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 non-traditional exports in Uganda (October 1991).

The summary section of this paper draws heavily on the country annexes in presenting the following:

- Approaches employed by USAID (and to a much lesser extent, other donors) and lessons learned in promoting agricultural marketing and agribusiness, particularly since 1985.¹
- Indicators of agricultural marketing and agribusiness performance, or essentially refining those indicators presented in the Strategic Framework.

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.

- Information and knowledge gaps and needs faced by USAID missions in Africa as they become increasingly involved in agribusiness projects and programs.
- Elements of a strategy for promoting agribusiness investment and trade in Africa.

2. Characteristics of African Countries Selected

Exhibit 1 lists the 10 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; colonial heritage; income level; importance of agriculture in the economy; agro-ecological zones and agricultural potential; debt burden; policy environment; investment climate; and chief agricultural exports. The countries selected represent a cross-section of Africa. They were selected in part, because of an *ex ante* perception that they had significant potential for agribusiness development. Others were selected because USAID Missions are 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 agriculture² 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
- Government policy and regulatory environment that fosters investment and entrepreneurship

The Phase II fieldwork will address these issues in greater depth in a subset of the 10 countries.

3. USAID Approaches to Agricultural Marketing and Agribusiness 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 classifies the experience of the 10 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 AMIS's review of available documentation; it reflects our understanding to date of USAID Mission program emphases in the recent past, yet not necessarily a complete picture of very

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

**EXHIBIT I
KEY ECONOMIC INDICATORS**

	Cameroon	Ghana	Guinea	Kenya	Mali	Niger	Rwanda	Togo	Uganda	Zimbabwe
Population (millions)	11.6	14.4	5.9	23.3	8.2	7.5	6.9	3.5	16.8	9.6
Area (thousands of sq. km)	475	239	246	580	1,240	1,267	26	57	236	391
Annual Population Growth Rate ¹	3.2%	3.4%	2.5%	3.9%	2.5%	3.3%	3.2%	3.5%	3.2%	3.5%
Urban Population Growth Rate ¹	6.1%	4.2%	5.7%	8.2%	3.6%	7.7%	8.1%	6.97%	5.1%	6.0%
Urban Population/Total Pop ²	48.2%	33%	25%	23%	19%	19.0%	7%	25%	10.2%	27.1%
Per Capita GNP ²	1,000	390	430	360	270	290	320	390	250	650
Average Annual Growth in GDP ¹	3.2%	2.8%	4.4%	4.1%	3.8%	-1.6%	1.5%	1.4%	-2.8%	2.7%
Inflation Rate ¹	6.6%	43.6%	N/A%	9.1%	3.6%	3.8%	4.0%	5.2%	108.1%	10.9%
Debt Service (% of Exports) ²	17.3%	48.9%	21.9%	33.3%	15.0%	32.1%	18.5%	11.3%	77.0%	26.0%
Agriculture Contribution to GDP ²	27%	49%	30%	32%	50%	36%	37%	33%	67%	13%
Major Agricultural Exports (in order of importance)	Cocoa Coffee Cotton Bananas	Cocoa Coffee Bananas	Oilseed Coffee Cocoa	Cotton Tea Coffee Maize Hort Crops	Cotton Live-stock Mangos	Cowpeas Hides & Skins Onions	Coffee Tea	Cotton Cocoa Coffee	Coffee Cotton Tea Fish Maize	Cotton Tobacco Sugar
Policy Reform Rating ³	Strong	Strong	Strong	Mixed	Improv- ing	Strong	Not Rated	Mixed	Strong	Mixed
Exchange Rate (ER) ⁴	Pegged	Deval./ Float	Deval.	Deval.	CFA	CFA	Deval./ Float	CFA	Deval./ Float	Deval./ Float
ER Divergence (official/market) ⁴		<.5%	--	1%			Negl.		>20%	5%
ODA per capita (dollars)	40.7	37.6	62.2	41.1	57.2	39.8	34.5	51.9	23.7	27.9

¹1980-1989

²1989

³Based 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.

⁴In 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 exchange rate adjustment process has been managed.

EXHIBIT 2-A

EXAMPLES OF USAID APPROACHES TO AGRIBUSINESS AND AGRICULTURAL MARKETING DEVELOPMENT ³

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).
- 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.
- 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.
- 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.
- 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 (IAD) 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.

³ 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.

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

Note: In many cases, it is difficult to rank-order mission approaches. The above classification is subjective and based on our understanding of mission priorities and programs since 1985.

BEST AVAILABLE DOCUMENT

EXHIBIT 2-B : THE AFRICA BUREAU'S STRATEGIC APPROACH TO PROMOTION OF MORE EFFICIENT AND COMPETITIVE MARKETING SYSTEMS ⁴

- ▶ 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.
 - Kenya: Emphasis was on improving agribusiness management capacity and rural enterprise performance (through targetted 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).
 - Mali: Emphasis on policy/regulatory reform and restructuring of OPAM. Investment in soft infrastructure (market information) and some assistance to market participants through targetted credit programs.
 - Niger: Focus on economic policy reform and funding of specific commodity subsystems studies through 1990. During FY91 and early FY92, the Mission shifted its emphasis to design of a project assisting market participants (exporters). NEPRP II has been shelved.
 - 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.
 - Togo: Maize marketing and trade policy reform under Cereals Export Liberalization in Topo 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.
-

⁴ 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.

recent and new program thrusts.

Exhibit 2 attempts to classify the essence or principal thrust of recent USAID mission approaches to agricultural marketing and agribusiness interventions. AMIS recognizes 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 area. Mali 2 and Mali 3 are lower priority approaches.

A striking finding of AMIS's attempt to classify mission approaches is that many USAIDs have placed high priority on marketing policy reform since the mid-1980s. 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. AMIS shares this view and believes 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.
- 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 and 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 monopolies, have been slow in many cases, due to the large stakes that these

morganizations have in the existing organization 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 all of the value of loans.⁵

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). FSA/CA undertook multi-year studies of farmer, trader and market behavior in four of the African countries that AMIS has investigated: 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.⁶ 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 policymakers 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.

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). AMIS strongly recommends that A.I.D. invest heavily in agribusiness promotion in only those African countries where significant policy and regulatory reform has already been

⁵ Another problem with collateral is that there is no enforcement capacity to back up loan agreements in case of default. In such cases, collateral has no value, so banks are extremely selective in making loans.

⁶ Prices in this context are broadly construed to include agricultural input and output prices, exchange rates, interest rates, and inflation.

undertaken or is well underway. In addition to the extent of policy reform, 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.

Looking carefully at FSA/CA research programs on food security in Sub-Saharan Africa also leads AMIS 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.

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). On these grounds alone, AMIS recommends strongly that Uganda be included among the subset of countries for Phase II field work. 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; analytical and strategic assistance to USAID/Conakry would be timely during Phase II, as the Mission finalizes the design of the Agricultural Marketing and Investment 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, Phase II of this study for ARTS/FARA will focus on discussing A.I.D. options for promoting both domestic and foreign agribusiness investment to meet domestic market needs and export opportunities.

4. Significant Lessons Learned from Recent Experience

This is a selective overview of significant lessons from recent A.I.D. experience. The lessons are discussed by intervention type.

4.1 Staple Crop 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 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. In some cases government agents who are supposed to implement new regulations are ill-informed of their content and nuances. Other agents exploit traders' ignorance by interpreting regulatory reforms to their advantage, or by insisting that the old regulations are still on the books.

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 or in-depth case studies can be used to track reform impact, although statistical validity is 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 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 an accurate, 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 vested interest in using the market information (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 and strengthen the overall effort. In the case where expatriate advisors set up and manage an African 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.

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 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.

4.3 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 been 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 are 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 has 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. Closer examination of USAID/Cameroon experience in using the IAD may be worthwhile in Phase II.

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. Those 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.

4.4 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), originally slated for funding from FY 1992 through FY 1996, USAID/Kenya is providing significant resources for rehabilitation and construction of secondary roads to serve rural markets. The technical assistance contract under KMDP calls for USAID to provide 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.

4.5 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. 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 AMIS reviewed in Phase I, 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 sanction poorly performing 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, 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 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 roles 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 EPRP). 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 export markets increasingly, they will have to strengthen local private sector capacity to assess constraints to 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 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.

AMIS feels strongly that USAID needs to develop more innovative and effective tools for serving the needs of private sector entrepreneurs, particularly for non-traditional exports. Capacity to produce, process (add value), market and export these commodities successfully will necessarily reside in the private sector. There are very few examples (Kenya) where African governments have effectively assisted the private sector in exporting non-traditional commodities. This is not to argue that the public sector do nothing. Public agencies may be able to generate and disseminate certain types of market information, or provide financial resources for upgrading market infrastructure in both public and private hands.⁷

One key issue in building local private sector capacity concerns the best mix of training and technical assistance to budding entrepreneurs. In some African countries, such as Rwanda, USAID has funded training in generic business skills, including accounting, general management practices, and how to put together a bankable business plan for a start-up venture or to expand an existing enterprise. This type of general management training may be necessary in some countries where private sector capacity is extremely limited and where business management skills are poorly developed. Such training is unlikely to be necessary and sufficient, however, particularly for entrepreneurs interested in export operations. Foreign technical assistance needs to be focused on the specific requirements of different commodity groups, which have varying technical characteristics, handling, grading and processing requirements, market opportunities, and quality standards in international markets.⁸

In order to promote exports, AMIS argues that technical assistance needs to be tailored to the requirements of different commodity groups. This presupposes in part that the entrepreneurs in an African country are able to pick the export commodity subsystems that are likely to be winners in regional and international markets. African governments can assist the private sector in this process by carrying out comparative advantage studies, providing market information and intelligence on international commodity markets, and subsidizing the cost of visits by entrepreneurs to foreign markets.

One possible innovation that might help promote exports is business incubators. Small business incubators, which were pioneered in Pennsylvania, are physical facilities where budding entrepreneurs pay minimal rent, share communication facilities and perhaps secretarial or telephone-answering services, and receive some management assistance from an incubator director. If applied to, say, non-traditional exports in African countries, incubators could

⁷ An example of a useful public investment to facilitate exports of non-traditional commodities is installation of cold storage at international airports and ports, the staging point for shipment of goods to foreign markets.

⁸ USAID/Uganda's Agricultural Non-Traditional Export Promotion Program provides technical assistance targetted towards exporters, including the development of a handbook providing a general introduction to export techniques for small and medium-sized exporters, as well as seminars targetted to exporters of specific commodities.

provide more specialized services to a pool of small-scale entrepreneurs, such as shared international communications, cold storage, and access to international market intelligence. The incubator concept is being applied in Eastern Europe with reported success. Incubators are most likely to flourish in countries where human capital is well-developed, significant entrepreneurial skills and energy are well-established or have been recently unleashed, and these entrepreneurs need an "office" (formal place of business) where they can share facilities at low pooled cost.

4.6 Technological Innovation and Technology Transfer

Other than in the information sciences, as applied to market information systems, policy analysis, and management information systems, USAID does not have much of a track record in promoting technological innovation in African countries. Much of the problem stems from the fact that U.S. agricultural marketing, handling and processing techniques tend to be capital-intensive and 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 from other African countries or Latin American and Asian countries at similar stages of economic development. AMIS has 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.⁹

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. AMIS 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.

5. 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

⁹ 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.

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, API's 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 Plans (CPSPs) which reflect 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 if the overall objective of improving the efficiency of agricultural markets has been achieved, or to what extent.

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.

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 3. 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 AMAD 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 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 4 describes illustrative Level I indicators such as the percentage change in the official-parallel price differential (measuring the impact of changes in pricing policies, for example).

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. number of restrictive procedures facing private sector marketing participants reduced). 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 of themselves. While recognizing the limitations of process indicators, the following example demonstrates the potential usefulness of monitoring impact at Level I.

EXHIBIT 3

Performance Measures for Agribusiness & Agricultural Marketing Interventions.

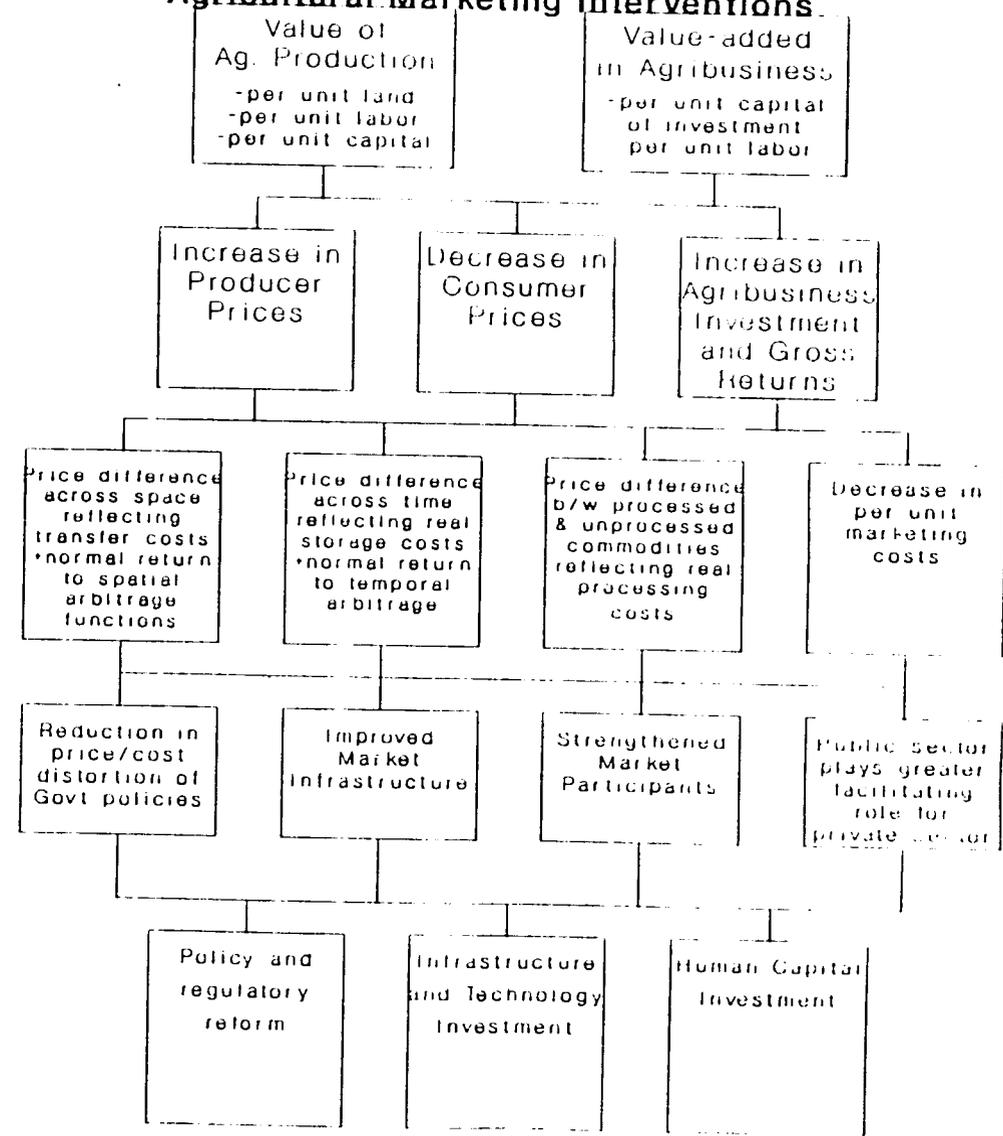
V. Ag Sector Strategic Objective:
Sustainable Increases in Agricultural Productivity

IV. Expected Outcomes

III. Agribusiness/ Ag. Marketing Objective:
More Efficient, Lower Cost Marketing

II. Conditions that Contribute to Increased Efficiency

I. Actions that Establish Conditions



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 is collected; speed with which price data is processed and reported; number, timeliness and frequency of dissemination outlets (printed price reports, radio broadcasts, etc.); number of requests for SIM price bulletins and analytical reports; number of SIM seminars and workshops that analyze and interpret market information for policy-makers.

These process indicators can be supplemented by either structured informal interviews or periodic formal surveys of different user groups to obtain information about their opinions of MIS reliability, accuracy and utility, and concrete suggestions about how dissemination of market information could be improved and trader awareness of 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 SIM 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 (whether or not they are truly able to interpret MIS well and use it more effectively in their trading decisions). A good enough indicator should be trader assessment of the value of public MIS, not whether it leads to them making better decisions.

In order to evaluate the accuracy and 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 site visits to markets where enumerators are actually collecting price data. AMIS 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.

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 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 USAID 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 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, to integrate forward or backward, and to increase 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 are 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 macroeconomic 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 increase in agribusiness investment and gross returns, can be assessed either at the level of the firm or the sectoral level. Furthermore, performance measures will have different meaning depending on the category of agribusiness. In Africa, there are three basic categories of firms, described below:

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, and baking companies (producing bread, snacks). These formal sector firms often have expatriate capital and produce under licensing agreements (e.g., Coca-Cola).

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 skills required for production. These can be both formal and informal activities.

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 is also problematic, 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 is 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 increased productivity. However, since priorities are usually on implementing policies, little work has been done on developing sector-level measures of increased agricultural 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 increases 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.

5.1 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 4. 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 4, the illustrative indicator is the percentage decrease in the export tariff. For specific countries, indicators should specify commodities covered under

EXHIBIT 4: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level I - Actions That Establish Conditions

ACTIVITY	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
<p><u>Policy and Regulatory Reform:</u></p> <ol style="list-style-type: none"> 1. Input and output pricing policies 2. trade policies 3. fiscal and monetary policies 4. policy administration and regulations 	<p>Examples:</p> <ul style="list-style-type: none"> ● % divergence between official and parallel exchange rates ● % decrease in export tariff ● % increase in interest rate ● number of regulatory steps involved in starting a new business or exporting 	<p>Policy reform monitoring</p>
<p><u>Infrastructure Investment:</u></p> <ol style="list-style-type: none"> 1. physical structures 2. financial and informational services 3. MIS and services <p><u>Technology Investment:</u></p> <ol style="list-style-type: none"> 1. commodity production/procurement 2. transport/storage 3. telecommunications 4. microcomputers 	<p>Examples:</p> <ul style="list-style-type: none"> ● kilometers of new roads ● frequency and distribution of market price broadcasts ● size of formal financial sector and loan volume ● increased yields ● % of commodity achieving higher grades ● % of commodity processed ● % reduction in transport and storage costs (due to fewer losses) ● % of exporters with fax/telex machines ● % of exporters with computers ● international telephone/fax satellite slots 	<p>Project monitoring GIS system Key informant surveys</p>
<p><u>Human Capital Investment:</u></p> <ol style="list-style-type: none"> 1. public sector 2. private sector 	<p>Examples:</p> <ul style="list-style-type: none"> ● number of civil servants trained ● number of private sector participants in training seminars 	<p>Project monitoring</p>

EXHIBIT 4: 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	<ul style="list-style-type: none"> ● % reduction in private/social price differential 	DRC/PAM studies
Improved Physical Market Infrastructure	<ul style="list-style-type: none"> ● % 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
Improved Financial and Information Services	<ul style="list-style-type: none"> ● % 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	<ul style="list-style-type: none"> ● % decrease in input/output coefficients ● % increase in investment in productive capacity 	Policy reform monitoring
Strengthened Public Sector Role	<ul style="list-style-type: none"> ● reduction in direct "control" activities (e.g. price-setting) ● increased evidence of institutions/interventions playing a regulatory/facilitative role for private sector (e.g. establishment of grades & standards) 	

EXHIBIT 4: AGRIBUSINESS AND AGRICULTURAL MARKETING IMPACT INDICATORS

Level III - Agribusiness/Agricultural Marketing Strategic Objective

STRATEGIC OBJECTIVE	ILLUSTRATIVE INDICATORS	MEANS OF VERIFICATION
<p>More efficient, lower cost marketing for agricultural commodities</p>	<ul style="list-style-type: none"> ● 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 certain commodities 	<ul style="list-style-type: none"> ● Key informant interviews ● Transport cost surveys ● Market Information system ● Storage cost surveys ● Agribusiness cost surveys ● Firm registration records; yearly firm surveys ● Market structure survey

EXHIBIT 4: 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	<ul style="list-style-type: none"> ● % increase in prices at farm-level or primary collection points ● increase in percent of f.o.b. price received by producer ● 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	<ul style="list-style-type: none"> ● % decrease in retail price of certain commodities ● % of total household income spent on food ● % of total household income in savings and investments 	Consumer survey Focus groups
Increase in Agribusiness Investment and Gross Returns	<p><u>Enterprise Specific:</u></p> <ul style="list-style-type: none"> ● return on investment ● profits on sales (operating profit) ● sales trends/levels ● employment trends/levels <p><u>Sectoral Level:</u></p> <ul style="list-style-type: none"> ● 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 5: SHORT-RUN AND LONG-RUN MEASURES OF MORE EFFICIENT AGRICULTURAL MARKETS

Short-Run Measures	Long-Run Measures
<ul style="list-style-type: none"> ● Increase in producer prices (by commodity): <ul style="list-style-type: none"> - 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 <ul style="list-style-type: none"> number of private traders/dealers - number of agribusinesses - entrants > failures ● Increase in investment in agribusiness <ul style="list-style-type: none"> - foreign investment - large-scale capital-intensive processing - value-added cottage industries - agricultural trading firms ● Smaller price variations across time and space <ul style="list-style-type: none"> - coefficient of variation - seasonal price indices - intermarket price correlations 	<ul style="list-style-type: none"> ● Increased diversification at farm-level <ul style="list-style-type: none"> - increased acreage planted to non-traditional export crops ● Increase in non-traditional export earnings and increased income from off-farm ● Increased range of products available to consumers ● More nutritious products available to consumers ● Decrease in post-harvest losses/waste <ul style="list-style-type: none"> - cost of storage (commodity and firm or farm specific) ● Better packaging/storage/processing techniques used ● Lower marketing costs distributed among producers, traders, transporters, processor, exporters, etc. ● Increase in % 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 <ul style="list-style-type: none"> - larger firms with higher volume - lower costs per unit throughput - backward or forward integration that lowers costs - investment in improved technologies and management system

the tariffs and the level of the tariff rates used and the target rate after reform.

5.2 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 more value-added activities take place, consumer prices could conceivably rise (since consumers are willing to pay for added convenience, for example). Exhibit 5 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.

6. Information Needs and Gaps

The information needs of agribusinesses and USAID 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.

6.1 USAID Information Needs

Information is an important factor in USAID's ability to contribute to country development. Identifying which problems or constraints that USAID should and can address; what combination of resources and approaches should be employed; and subsequently, whether the USAID 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 AID process. At the outset, information is required to identify constraints and opportunities and to design the AID project or program response. As described in section 5, 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 6 lists important quantitative and qualitative information requirements follows.

EXHIBIT 6 INFORMATION NEEDS

USAID

GENERAL MACROECONOMIC, SOCIAL AND POLITICAL INDICATORS

Population Growth Rate
Rural/Urban Population Ratio
Literacy Indicators
Distribution of Wealth
Characteristics of Political Structure
Debt Service Ratio (% of Total Exports)
Inflation Rate
Interest Rate
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)
Proportion produced by small-scale farmers
Indicator of Sector Protection
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, transaction levels)
Coordination and Integration Between Transaction Levels
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 effect Production or Marketing
Bottlenecks and Constraints to Marketing

PERFORMANCE OF MARKETING SYSTEM BY COMMODITY

Spatial Coordination - Price Variability Across Space
Temporal Coordination - Price Variability Across Time
Margins for each Transaction Level
Returns for each Transaction Level
Market Concentration (Degree of Market Control)
Proportion of Post-Harvest Losses
Price Differentiation for Quality

PRIVATE SECTOR

DOMESTIC MARKETING

Crop Production Estimates, Seasonality, by Region
Raw Material Supply - Volumes, Prices
Labor Costs
Availability of Skilled Labor
Agroprocessing Costs
Utility Costs and Availability of Services
Transportation Costs and Availability
Consumption Estimates, Patterns and Trends
Demand Estimates
Major Potential Buyers
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
Volume and Prices of Competing Imports
Wholesale and Retail Prices of Competing Products

EXPORT MARKETING

All above, except last two, and:

- * World Production, Ten Year Trends, Forecasts
- * Volumes Traded on World Markets for Major Trading Countries
- * 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

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 USAID 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 cooperating country sources or international donor agencies.

More specific information on the agricultural sector is needed to help narrow down where within the agricultural sector, USAID 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 identify where opportunities exist and where USAID 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 appropriate USAID 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 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 transaction level. 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, leading to 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 described, 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 to the next stage of development.

At the second phase of the AID process -- monitoring and evaluation -- very specific quantitative indicators of marketing system performance are required for effective assessment of project impact. As described in section 5, aspects of the marketing system that should be evaluated include spatial and temporal coordination, 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 coordination 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, cost efficiency can be measured by the size of the marketing margins. As mentioned in the previous section, 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 overtime. A more accurate but more costly and often difficult measure to collect is the return received by marketing firms at a specific transaction level.

6.2 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 and consumption estimates and

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 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, and ideally costs and capacity of other producing countries.

As opportunities are identified, more specific knowledge on how to actually export the product is crucial. Information on standard packaging and shipping sizes, 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 requirement 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.

6.3 Data Gaps and the Role of the Africa Bureau

The quality and level of information available to agribusinesses and USAID missions varies significantly throughout Africa. For example, prices of traditional and 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 or sectoral data for many countries is not reliable and often inconsistent. Locating macroeconomic and sectoral information is also time consuming and often depends on luck in conducting random 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. Note that country specific data gaps will be identified more definitively during field visits.

Much of the information required by AID missions to identify problems and design responses is very 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 AID projects or government agencies. Alternately, AID could provide funding to government agencies for the purchase of commercial market news services, such as those provided by the ITC or COLEACP.
- 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.
- A report clarifying import regulations and other considerations for potential exporters of selected commodities to selected markets would be useful to many agribusiness in many African countries.

- The Africa Bureau could provide support to missions for cataloguing donor studies and donor collected data and serve as a clearinghouse for making studies and data sets available to missions and other interested parties.

7. Lessons Learned from A.I.D. Promotion of Foreign Agribusiness Investment and Trade¹⁰

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.

7.1 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).¹¹

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.

¹⁰ This section consists of condensed and edited sections of a forthcoming AMIS staff paper by Richard D. Abbott and Christine Erbacher. The paper will be entitled Agribusiness Trade and Investment Promotion: Approaches to Directly Involving U.S. Agribusiness and is expected to be published by AMIS in January 1992.

¹¹In 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.

Other mission programs and projects directly 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,
- ◆ 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.

This section (section 7.0) focuses on agribusiness trade and investment promotion activities of A.I.D. in Africa, and thus deals mainly with the interface between A.I.D. and the private sector. It will examine approaches which might be used to more directly involve U.S. (and other foreign) agribusiness in development of trade and investment activities in African countries.

7.2 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 pro-active and the degree to which services are standardized or targeted. A Louis Berger International study identified three approaches¹²:

- 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 pro-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 pro-active in that it provides enterprise-specific assistance to a limited number of clients. It assumes that there are major constraints on

¹² 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.

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.

7.2.1 Importance of the Operational Environment

As discussed in section 3, 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, T&I promotion projects should be delayed until the major constraints are eliminated.

7.2.2 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 production cost data to foreign investors, were highly valued by clients.¹³ 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

¹³ 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.

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 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.

7.2.3 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.

7.2.4 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.

7.2.5 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 has 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.

7.2.6 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.¹⁴

7.2.7 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

¹⁴Interview with Pameal Diehl Michel and Diana Bejarano of Chemonics regarding Chemonic's experience with the PROEXAG Project, May 2, 1991.

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.

7.2.8 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.

7.3 Experience of the Africa Bureau's Office of Market Development and Investment (MDI)

Until a recent reorganization, the Africa Bureau's Office of Market Development and Investment (AFR/MDI) had a broad mandate to promote private sector growth in Africa.¹⁵ Although controversial, MDI activities broke new ground in T&I promotion; techniques used by MDI may -- with some necessary modifications -- be adapted for future use by the Agency. Among the unit's activities were the following:

- 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.

¹⁵ Under the reorganization, AFR/MDI has been changed to AFR/ONI. ONI has commissioned a strategy paper, which is being drafted by Nicolas Kulibaba, a frequent consultant to AMIS.

- 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 MDI 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" -- CEO's of small and medium-sized U.S. agribusiness firms -- with an interest in forming joint ventures or sourcing product 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 MDI. Under another provision, start-up costs for a joint venture were to be covered by MDI 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.

7.4 The Role of Catalysts in Trade and Investment Promotion

An interesting 1989 World Bank study¹⁶ which reviewed export success stories in eleven countries called attention to the importance of the "catalyst". This is 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), Cote d'Ivoire (cocoa), Jamaica (garments), Guatemala (shoes), Hungary (software), Indonesia (plywood), Bangladesh (garments), and Brazil (aircraft).

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

In some cases, a local catalyst had the capacity to package the necessary technical, marketing, managerial know-how, and 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 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 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 appropriate costs, 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.

8. Promoting Domestic Agribusiness and Intraregional Trade in African Countries

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. In the short to medium term, the most promising agribusiness investments are likely to be in staple food crop marketing, processing and distribution for domestic and neighboring markets, as well as improvements in the efficiency and productivity of traditional export crop subsectors.

This section 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.

8.1 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 desktop review.

A fundamental dilemma 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 transactions 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.

8.2 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 targetted 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, AMIS recommends against formal credit programs in support of agribusiness.

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.

8.3 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 net cereal buying households, but they buy 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.

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 maize surplus for export will find that a prospective trading partner also has had a surplus crop, which limits trade opportunities.

8.4 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.¹⁷ 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.

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

¹⁷ 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.

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.

8.5 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 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 Agroenterprise and Technology Systems Project.

8.6 Other Issues

In fostering small and medium-scale agroenterprise in African countries, several other issues need to be raised, although they will not be fully discussed here. First, what are the market information needs of small and medium-scale firms operating primarily in domestic markets? Managers of many of these firms are often poorly informed of government policies and regulations affecting their businesses. Most African countries do a poor job of informing traders and enterprises of changes in policies and regulations. Given the accelerating pace of policy and regulatory reform, this may lead to considerable confusion about rules of the game and uncertainty among private operators. Unscrupulous public officials may play upon the ignorance of poorly informed private traders and extract fictitious payments for supposed government services (rents). One way to increase the transparency of government policies and regulations is for African governments to do a better job of publicizing policy changes and interpreting new regulations to private operators. USAID and other donors can provide resources to assist governments in doing this better. It should have a high payoff in terms of improved trader understanding of trade regulations and lower incidence of rent-seeking behavior on the part of uninformed public agents.

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.

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

2. Key Indicators of Economic Performance

Cameroon is a middle-income country with rich natural resources, relatively high education rate, and strong private sector's entrepreneurship. Although its prosperity since the late 1970s came from the oil industry, the country has remained an agrarian economy. The 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 exports also oil and timber. Cameroon's remarkable economic growth in the 1980s came to an 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 has 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 Economic Performance

	1980	1989	1980-1989
Population (millions)	8.7	11.6	
Annual Population Growth Rate			3.2%
Urban Population Growth Rate			6.1%
Urban Population/Total Pop	34.7%	48.2%	
Per Capita GNP	\$760	\$1,000	
Average Annual Growth in GDP			3.2%
Inflation Rate			6.6%
Debt Service (% of Exports)	15.2%	17.3%	
Agricultural Contribution to GDP	32%	27%	

3. Economic Reforms

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.

Success achieved so far includes 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; rehabilitation 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. Cameroon Agricultural Marketing and Agribusiness Projects and Programs

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

4.1 Cameroon Agricultural Policy Analysis and Planning Project

The purpose of the Agricultural Policy Analysis and Planning Project (CAPP) is to strengthen and institutionalize the capacity of the Government of the Republic of Cameroon (GRC) to conduct economic and agricultural policy development and planning within the Ministries of Agriculture, Livestock, and Plan. CAPP (1989-1993) is a \$12 million project that involves systematic data gathering and policy analysis aimed at identifying opportunities and constraints in rural development and evaluating policy options to address them.

The project, a follow-up to the eight-year Agricultural and Management Project (AMP), has achieved tangible results in collecting and processing agricultural data (area, yields, production, and farm sales). However, few studies have been conducted that had policy impact.

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

Several underlying assumptions of the project have been proven false in implementation. Far too much energy has been wasted on trying to make inoperative institutional arrangements work, while project implementation processes demonstrated a lack of basic management ability.

A recent evaluation of CAPP concludes that the project cannot meet its intended objectives if allowed to run its course under the existing institutional arrangements (Hobgood, Ouedraogo, and Wigton, 1991). Although the basic agricultural statistical system appears sound, the GRC must make hard decisions to sustain it within existing resource levels. The evaluation recommends an immediate adjustment of the project to eliminate the current superstructure, the design of a more cost-effective data collection system; a redefinition of the policy study agenda; and use of the abundant capacity available in Cameroon (local public and private) and abroad to conduct such studies.

A key lesson from the CAPP project is that capacity building for policy reform analysis often pays little attention to the in-country capacity available in several institutions. For example, the expertise not available at the "Policy Analysis Unit" in Ministry A, may be available at other locations, including private sector institutions.

4.2 Fertilizer Subsector Reform Program

The Fertilizer Subsector Reform Program (FSSRP) is an important program in the Mission portfolio that AMIS has periodically evaluated. An extended account of this program is given elsewhere (see Abbott, 1989, 1990, 1991a, 1991b). Program background, performance indicators, effects of recent economic conditions, lessons learned, information gaps, and conclusions drawn from the program are discussed below.

4.2.1 Background

In September 1987, USAID/Cameroon and the (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.

4.2.2 Performance Indicators

Four key indicators demonstrate the performance of the program.

Volume of Fertilizer Imported. 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.

Private Sector Participation: Distributors in 1988 were generally the same coffee cooperatives who 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. The principal new element in the marketing structure was the appearance of two importing firms, both established by non-Cameroonians 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. Two commercial banks handled all fertilizer import transactions in the first two years. It had been hoped that the private sector would participate more than they have thus far.

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. This can be explained in several ways: The government system had not assured negotiation of purchase contracts at the most advantageous prices, or it had involved too many middlemen or brokers charging commissions, or it had 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.

4.2.3 Effect of Recent Economic Conditions

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. However, as a result of this situation, one of the two importers became financially over-extended and had to suspend fertilizer imports in 1991. The reduction in the number of importers to a single firm could raise concerns, but the stock carry-overs in the hands of distributors precluded any kind of monopolistic pricing in 1990.

4.2.4 Lessons Learned from FSSRP

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

- 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.
- Clearly, a period of declining output prices was not the best time to remove subsidies on a key input such as fertilizer.
- On the other hand, 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. It appears that 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.

4.2.5 Information Gaps and Needs

The FSSRP would have benefitted from more information about farmers' attitudes toward the costs and 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.

4.3 The Program for Policy Reform in the Agricultural Marketing Sector (PRAMS) I and II

PRAMS I is a \$23.5 million effort focusing on the liberalization and privatization of arabica coffee marketing, without undue social cost. Its \$18 million NPA component supports policy reform measures aimed at (1) the liberalization of external trade and the liberalization of internal trade over two years from start of project implementation; (2) the introduction of market prices; and (3) the elimination of the parastatal producer price stabilization (USAID/Cameroon, 1990). Specifically, the reform pursues six basic changes: (a) elimination of a government role in internal and external coffee marketing; (b) liberalization of marketing margins; (c) simplification of the export tax structure; (d) replacement of the administered quality control with a market-based one; (e) payment of arrears owed to NCWA by the defunct parastatal National Produce Marketing Board (NPMB); and (f) design of an improved system for allocating quotas should the International Coffee Agreement be reinstated.

Local currency is also used to support and strengthen the North West Cooperative Association (NWCA), to make it a more efficient participant in a market economy and ease the marketing board's transition to a much smaller role. The program's \$5.5 million project

component aims to strengthen NWCA through the provision of long- and short-term technical assistance and training, research, and support for project management, monitoring, and evaluation.

PRAMS II is a \$25 million effort focusing on an orderly process to liberalize and privatize the internal and external trade in the cocoa and robusta coffee subsectors, while minimizing social costs. Two stages are planned. The objective of stage one is to provide the foundation for establishing a fully liberalized market structure in the robusta coffee and cocoa producing zones by late 1992. 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. The objective of stage two is to facilitate the creation of sustainable, efficient, and competitive marketing structures that will result in higher producer prices. The program foresees a transition from an administered market structure to a liberalized one. Such a transition requires the restructuring of local cooperatives, and the elaboration of viable rules and procedures defining a new relationship among agribusinesses and the Government.

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 publically 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 little 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 Corp. (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 Project Experience

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.
- 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.²

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

² A.I.D., "Audit of the North Cameroon Seed Multiplication Project," November 1985.

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.)

4.4.3 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.

4.4.4 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 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.³

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.

"Incentives are necessary to attract this 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," Hans says.

³ Development Assistance Corporation, "Final Report: North Cameroon Seed Multiplication Project, Phase II, 1991(?).

4.5 Program for Policy Reform in the Export Processing Sector

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 intent of the regime is "to liberalize policies related to the export processing sector, thereby reducing the GRC's involvement in this important part of the economy. By the end of the program, PREPS will have contributed to the creation of an environment where local private enterprises can compete in world markets."⁴

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. The NOIFZ is to "create a simplified, transparent, and automatic process for obtaining the benefits of the Free Zone regime that requires no more than 30 days to complete."⁵ 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.

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) is to be established also 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.

Under the technical assistance component (\$3.1 million) of the program, USAID/Cameroon will provide the services of expatriate short- and long-term to assist the two organizations. These persons will train Cameroonian staff in such areas as assessment to the viability of the free zones, economic and market analysis, financial analysis, design of alternative

⁴A.I.D. Program Grant Agreement dated August 30, 1990. Grant No. 631-T-604.

⁵ A.I.D. grant agreement, op. cit.

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, OPIC will consider the project for financing and A.I.D. can contribute funds for feasibility studies.⁶ The Cameroon Government also offers incentives to investors. Individual companies not located in designated free zones can apply for benefits under the program.

5. Approaches

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 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), the bureaucracy (bureaucratic policy regime), and the governance or 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 then 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

⁶ AFR/MDI Africa Updates, July 1990.

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 CAPP project 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 public 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 for Planning Private Sector Agribusiness Activities

- An intimate knowledge of local private sector activities, strengths, and weaknesses is essential to planning private sector agribusiness activities.
- The design of agribusiness projects which promote trade and investment in specific commodity sectors must include analysis of both domestic and international supply, demand, and price trends.
- Training in business practices for small and medium-sized entrepreneurs new to a business activity should be a feature of any project which involves this scale of business venture.
- 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 overcome misunderstandings and improve performance.

- A.I.D. projects which stress institution building need to take into account the generally poor performance of LDC government agencies on A.I.D. projects in many countries in the past and the failure to achieve sustainability.
- 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.

USAID/Cameroon's use of the institutional approach has usefully called attention to these facts:

- Stakeholder analysis is important to the implementation of policy reforms.
- Failure to consider the social dimensions of policy reforms may derail implementation of these measures.
- Nurturing the private sector to ensure that it successfully replaces government parastatals involves more participation in implementation than most missions have embraced so far.

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ANNEX B

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	1989	1980-1989
Population (millions)	10.7	14.4	
Annual Population Growth Rate			3.4%
Urban Population Growth Rate			4.2%
Urban Population/Total Pop	30.7%	32.8%	
Per Capita GNP	\$410	\$ 390	
Average Annual Growth in GDP			2.8%
Inflation Rate			43.6%
Debt Service (% of Exports)	12.5%	48.9%	
Agriculture's Share of GDP	66%	49%	

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 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 banks for both long-term and working capital needs at market-determined interest rates;
- **Rural Finance Credit:** Providing 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

The strategy outlined in MTADS consists of a 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 approaches 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; and
- Improving the capacity of individual firms and entrepreneurs to export.

Initially, TIP will focus assistance on the key products that comprise 85 percent of Ghana's non-traditional exports. However, through the 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.

The TIP program is structured to maximize conditionality for funds disbursement. Funds will be disbursed on a tranching basis over five periods. Disbursement will be conditioned on evidence that specific conditions precedent (CPs) have been met according to the approved schedule. Tranching 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.

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. Summary

5.1 Approaches

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 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 pages 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 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 II 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 in 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 C

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 the 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 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.

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	1989	1980-1989
Population (millions)	5.4	5.9	
Annual Population Growth Rate			2.5%
Urban Population Growth Rate			5.7%
Urban Population/Total Pop		25%	
Per Capita GNP		\$ 430	
Average Annual Growth in GDP (87-90)			4.4%
Inflation Rate			N/A
Debt Service (% of Exports)	N/A	21.9%	
Ag. Sector Contribution to GDP	37%	30%	

Source: World Bank Development Reports 1982 and 1991.

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).

Figure 1.

Volume of Agricultural Exports, Selected Years, Metric Tons, 1960-1988

<u>Year</u>	<u>Coffee</u>	<u>Banana</u>	<u>Pineapple</u>	<u>Palm Kernel</u>	<u>Mango</u>
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 Toure 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 has 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

The Agricultural Infrastructure Project, which began in 1988, has undertaken the rehabilitation and construction of 104 km of paved roads that links major coastal rice production areas with Conakry.

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 in 1988.

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.

5. Syntheses

5.1 Approaches

The USAID/Guinea approach is largely a policy reform and institutional approach that combines advisory service, training, and technical assistance. The most important project for the mission is The Agricultural Marketing Investment project aims to increase private investment in the agricultural sector by strengthening the 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:

- New foreign and domestic private investment in agricultural production and marketing between \$__ million in 1992 and \$__ million in 1997 (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, the "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 Permenante des Statistiques Agricoles" (SPSA) which is located in the Ministry of Agriculture and Animal Resources (MARA). The SPSA has the responsibility to collect 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 D

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 stated primary role is to establish market incentives to 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.

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 millet, rice, and potatoes.

Kenya has been selected for the initial examination for several equally valid 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 inter-regional trade.
- USAID/Kenya has a project/program portfolio that targets agricultural marketing and agribusiness.

2. Key indicators of Economic Performance

Kenya 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, as agricultural production grew by 5 percent per year. More recently, average GDP growth has slowed, dropping to 4.1 percent annually from 1981 through 1989, and growth in agricultural production has 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 still thought to have great

potential for achieving sustainable, broad-based economic growth. Important economic indicators are listed below.

	1980	1989	1980-1989
Population (millions)	16.6	23.3	
Annual Population Growth Rate	3.9 %	3.7 %	3.9 %
Urban Population Growth Rate			8.2 %
Urban Population/Total Pop	16.1 %	23 %	
Per Capita GNP	\$ 420	\$ 370	
Average Annual Growth in GDP			4.1 %
Agricultural Contribution to GDP	34 %	32 %	
Inflation Rate			9.1 %
Debt Service (% of Exports)	22.3 %	33.3 %	

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, the Government has reopened several parastatal grain buying centers. Further, it has become clear that policy reform liberalizing maize movement has not been effectively implemented.

4. Agriculture and Rural Development Programs and Projects

4.1 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.

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).

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.

4.2 Kenya Market Development Program-KMDP

The Government of Kenya tightly regulates maize and bean marketing. Producer prices are set once a year and sales and movement of beans and maize are strictly controlled. The National Cereals Produce Board (NCPB), a parastatal responsible for improving food security throughout Kenya, dominates 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, is inadequate. Prices and availability of maize vary substantially across districts and throughout the season. Small farmers do not have equal access to NCPB buying stations, and to acquire movement permits, they commonly have to make "rent" payments to government officials. The current 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 increased net farm incomes and maize and bean production.

KMDP is essentially composed of three complementary components: policy reform support, technical assistance, and infrastructure rehabilitation. Specifically, USAID will provide 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.

To complement policy reform, KMDP will also provide technical assistance and commodities to strengthen existing GOK systems for collecting, analyzing, and disseminating market information to public and private sector participants. 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 to help ensure that food security needs are not compromised during the transition process. Timely market information will help with early identification of regional shortages, allowing more time for appropriate action. 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 will also assist in the rehabilitation of secondary marketing roads and will encourage the Government to increase improve policies regarding the frequency of road maintenance. Currently, the poor condition of secondary roads hinders farmers 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 the expected private sector response. At a minimum, farmers and traders as well as a myriad of 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.

The GOK signed the KMDP program agreement in 1990. As a result of the policy reform process, permits are no longer required for inter-district maize shipments of 44 to 90 kilogram bags or less. Technical assistance, which will be implemented through KMDP, and road rehabilitation are expected to begin in early 1992.

4.3 Fertilizer Pricing and Marketing Reform Program - FPMRP

USAID has provided fertilizer to Kenya since 1974 through a number of mechanisms. Since 1984, however, USAID has shifted emphasis from availability and use of fertilizer to the development of a private sector fertilizer marketing system. Program objectives are reduced fertilizer subsidies, more private sector participation, and a diminished government role in programming of fertilizer imports.

4.4 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 specific purpose is to expand the use of effective on-farm grain drying and storage practices in Kenya. Although this project is not strictly a marketing project, 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.

5. 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, several do affect agribusiness development.

5.1 Rural Private Enterprise (RPE) Project

The RPE has two components; term credit is provided to small and medium-sized firms in rural areas or agribusinesses through private financial institutions; and grants and technical assistance are provided to private voluntary organizations that work with rural enterprises. The second component, assistance to and through PVOs is administered through the Rural Enterprise Project described below.

5.2 Rural Enterprise Project (REP)

The REP is the component of the larger RPE project mentioned above that targets small rural enterprise development through PVOs. The project has several functions: it provides credit and grants to PVOs for general operations as well as on-lending to small enterprises; it provides technical assistance to PVOs and client firms and monitors and evaluates the RPE project.

5.3 Private Enterprise Development Project (PED)

This project has five components:

- Creation of a venture capital firm
- Export promotion and finance
- Investment promotion
- Informal sector assistance
- Technical and/or entrepreneurial training

5.4 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, to start in 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.

Like KMDP, KEDS uses an integrated approach that addresses policy environment and participant capacity. Specifically, KEDS will support the Government's efforts to streamline the export process through analysis 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.

6. Approaches

USAID/Kenya and other donors clearly recognize the importance of agricultural marketing in achieving increased agricultural productivity in Kenya. Indeed, donor studies have specifically identified two of four key constraints to improved agricultural productivity as related to marketing: inefficient marketing and pricing policies and inefficient agricultural input supply systems. USAID/Kenya is addressing both these constraints through a portfolio of complementary projects and approaches.

Central to the USAID strategy is support for basic economic structural adjustment and policy reforms at the sectoral level, complemented by other measures that address participant capacity and institutional inadequacy. The basic tenet underlying USAID's 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 should be addressed simultaneously with policy reform efforts.

The USAID/Kenya portfolio has also combined a number of mechanisms, including PL-480 grants, Food for Progress, loans, technical assistance, training, and commodities. The effectiveness of combining mechanisms will be addressed in great detail after field visits.

7. 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 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 the AMP and KMDP called for the collection of baseline data against which to evaluate project performance and impact. 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 subjective topics such as farmer perceptions of marketing constraints. 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) methodology. 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 is questionable.

8. Lessons Learned

8.1 Complementary Activities

The design of KMDP and KEDS draws 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 and encourage private sector response. Whether these specific facilitating mechanisms will be effective in encouraging private sector participation, however, will not be known for some time.

8.2 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. 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.

8.3 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 also greatly overshadows the GOK's contribution to development and is equivalent to about 12 % of GDP. 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 (\$150 million) for policy reform compared to that offered by USAID (\$40 million) has reduced

USAID's leverage. As a result, market policy reform has not proceeded as fast as USAID would like.

Similarly, 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.

8.4 Targeted Technical Assistance

To maximize impact, technical assistance for private sector firms should be carefully targeted. As noted above, some firms that received TA under AMP had the resources to obtain it without project assistance. Moreover, it is still unclear how project assistance may affect the overall objective of increased smallholder productivity.

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ANNEX E

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN MALI

1. Introduction

Mali was selected as one of the 10 countries for initial 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 Céréalières), which has led to fundamental restructuring of the cereals board OPAM and Malian grain marketing.
- OPAM's SIM (Système d'Information des Marchés Céréalières), 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 (50 percent in 1989). The major export crop is cotton; live animal exports also generate significant export revenues. Unlike many African countries, Malian cereal imports declined during the 1980s, partly due to good rainfall and harvests in the second half of the decade, and also due to cereals policy reform.

Key Indicators Economic Performance

	1980	1989	1980-1989
Population (millions)	6.6	8.2	
Annual Population Growth Rate			2.5%
Urban Population Growth Rate			3.6%
Urban Population/Total Pop	16.1%	19%	
Per Capita GNP	\$240	\$270	
Average Annual Growth in GDP			3.8%
Inflation Rate			3.6%
Debt Service (% of Exports)	15.1%	15.0%	
Agricultural Contribution to GDP	55%	50%	

3. Mali Agricultural Marketing and Agribusiness Projects

3.1 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 incentives, 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 reform are as follows:

- Decontrol of prices,
- Reduction in a number of business taxes,
- Introduction of a new commercial code, and
- Lousening 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,
- 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.

3.2 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 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.

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 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 the 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 1990. 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:

- 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 has been followed by an ATI/AMIS survey of small-scale technology alternatives for coarse grain processing in higher-potential rural zones of Mali. Fieldwork was carried out in CMDT zones in September-October 1991, and a report of key findings is forthcoming.

3.3 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 assessed the information needs of different prospective users of the SIM. Then the SIM spent six months harmonizing the data and methodologies of three different groups 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 methods and concepts and strengthening local capacity for collecting, processing, analyzing, and disseminating the results of analysis of cereals 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.

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 can 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.

The 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.

3.4 Livestock Projects and Program

USAID/Mali has provided assistance to the Malian livestock subsector since the mid-1970s and intends to fund a third subsectoral project in FY 1992 (Mali Livestock III). One important legacy of USAID's projects has been the promotion of cattle fattening in the region around Bamako. Although the credit program funded by USAID 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 counter-seasonal 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 maize extensification 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.

According to USAID/Mali, which is designing Mali Livestock III, future funding will be heavily oriented toward improving livestock subsector productivity. 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. In order to track the evolution of the domestic market, USAID/Mali is proposing to invest in improved livestock market information systems.

The USAID-funded cereals SIM (systeme 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 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 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 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 (Kulibaba and Holtzman, November 1991).

Although the AMIS studies of livestock marketing performance in the central corridor are not agribusiness studies as such, they do focus 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
- 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 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 in part to poor ventilation on boxcars (used to ship cattle), and the inadaptability of gondola cars for shipping small ruminants.

3.5 Agricultural Development in the OHV

What began as an area development project in the 1970s is now primarily an agricultural extension project (OHV). 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. The largest exporter is FRUTEMA, 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,
- Marketing information and intelligence is limited,
- Producers do not fully comprehend the stringent quality requirements of export markets,
- Marketing extension and advice is unavailable.

As a prospective expanding group of non-traditional exports, 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 in 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, FRUTEMA 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.

3.6 Cereals Marketing Reform Credit Component

The cereals marketing reform credit component, started in 1988, attempts to provide credit through the PRMC to entrepreneurs, farmers' groups, and traders, to increase their ability to take advantage of the liberalized cereals market by buying surplus stocks of grain in larger quantities than in the past. The assumption was that this would allow the sale of grain stocks at a time when prices were higher, instead of immediately post-harvest when prices tend to be lowest. 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. Questions have been raised as to whether the credit was even used for the intended purpose of purchasing of cereals in quantity for storage. 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, the assumption that prices would fluctuate enough to make long-term storage of large amounts of commodities cost-effective was based on price fluctuations occurring in 1984-85, when drought conditions affected deficit production prices. Since that time, 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, as well as high storage and grain loss costs that were not 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 are thus faced with high-priced stocks that cannot be competitively marketed without a loss. The credit organization faces the dilemma of writing off the loans or purchasing the grain from stricken owners and hoping to market it at a price which will offset their costs. (Cook, 1989)

4. Synthesis

4.1 Lessons Learned by Major Commodity Group

Drawing general conclusions from a disparate collection of USAID/Mali-funded programs and projects is difficult. Hence, this section will draw general 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); and those addressing non-traditional export commodities (especially horticultural crops).

4.1.1 Staple Crop Marketing

Cereal marketing reform, a major program thrust of USAID/Mali in the 1980s, remains so 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. 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 trade. The PRMC Technical Committee has used FSA 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, with USAID/Mali taking the initiative and collaborating closely with CIDA and FAC. The FSA 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 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, ATI, and MSU are examining different aspects of these questions in an attempt to provide empirically-based findings and recommendations on scale and type 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.

4.1.2 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 improve its competitiveness at the margin during the second half of the 1980s as its market share eroded in Côte d'Ivoire. 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 Mali

Livestock III, USAID/Mali appears to have carefully considered AMIS's empirical findings on livestock trade in the central corridor. Support is needed 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, and policy and regulatory barriers, as Mali Livestock III investments upgrade Malian veterinary and animal science research capabilities.

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 who 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.

4.1.3 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 compete to ship produce during the same counterseasonal months with African exporters. Most African entrepreneurs simply lack the technical and marketing knowledge, skills, finances, and wherewithal to compete in high-income markets. To compete effectively, they must become joint venture partners of specialized firms based in the high-income countries.

It is unlikely that generic business training programs that upgrade skills in accounting, record-keeping, business planning, and applying for loans will be sufficient to enable entrepreneurs to compete in demanding international markets. Instead, USAID can 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.

4.2 Approaches

USAID/Mali's approach to improving the efficiency of the agricultural marketing system in Mali largely involves marketing policy reform, with a selective use of interventions to improve market efficiency. The Mission is working in commodity and livestock sub-sectors to improve both the policy and regulatory environment in which marketing of these products occurs, and also production and post-harvest handling technologies. It also 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 somewhat limited 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 working on a single commodity system. In addition, some attention continues to be paid to food security. However, this approach takes into account GOM's concerns and attempts to integrate their 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 GOM with a safety net.

On the whole, the Mission appears to be emphasizing efforts to improve the open market environment through policy reform with assistance to agribusinesses and the marketing system in general to respond to new, expanded opportunities resulting from the changed environment. The Africa Bureau approach of addressing policies and regulations, infrastructure and participants is being applied in practice, though it is unclear that this has been USAID's conscious program strategy.

4.3 APIs

AMIS was unable to obtain USAID/Mali's APIs, but we can make specific recommendations on a program-by-program basis.

4.3.1 Market Information Systems

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 collected; speed with which price data processed and reported; number, timeliness and frequency of dissemination outlets (printed price reports, radio broadcasts, etc.); number of requests for SIM price bulletins and analytical reports; and, number of SIM seminars and workshops that analyze and interpret market information for policy-makers. These process indicators can be supplemented by either structured informal interviews or periodic formal surveys of different user groups to obtain information about their opinions of MIS reliability, accuracy and utility, and concrete suggestions about dissemination of market information could be improved. trader awareness of public MIS 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. 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 MIS well and use it more effectively in their trading decisions). A good enough indicator should be trader assessment of the value of public MIS, not whether it leads to them making better decisions.

In order to evaluate the accuracy and 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 site visits to markets where enumerators are actually collecting price data. AMIS 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.

4.3.2 Cereals Market Reform

The effectiveness of cereals market reform can be assessed in several ways. One simple indicator is to enumerate cereals trader 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 cereals 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 also required to interpret 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.

4.3.3 Livestock

The most direct measure of increased productivity of the livestock trade 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. Another measure is 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 domestic slaughter, particularly urban slaughter.

Mali Livestock III envisages greater investment in market information. Performance indicators could be more timely generation and dissemination of price reports to public analysts and decision-makers. Reports showing more and better 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.

4.3.4 Horticultural Crops

As in the case of livestock, standard PIs 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 participation in horticultural production would be the numbers of growers. Since horticultural crops are labor-intensive, the Mission would want to see wide participation in growing schemes. Another factor to monitor would be improved institutional arrangements (contracts) for guaranteeing producer deliveries and reducing risks to producers and exporters.

4.4 Information Gaps/Needs

4.4.1 Regional Price Data

Although the OPAM SIM has upgraded cereals market information in Mali, there is inadequate information in Mali about cereals prices in key markets of West Africa. Periodically, Mali will produce cereals surpluses, which can be exported to other countries in the region (depending on the size of the cereals harvests in potential markets). A broader knowledge of regional 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, with donor assistance, in MIS, cereals market information is not

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. While most livestock data collection efforts in Sahelian countries have been overdesigned, with too many marketplaces and categories of livestock, a simpler and more streamlined system would be better adapted to the livestock trade. 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 would be sufficient. CILSS has considered ways to improve livestock price collection and dissemination to assist Sahelian governments and Sahel-based livestock traders; CILSS is hosting a regional workshop on livestock marketing in late January 1992, where livestock market information, among other topics, will be discussed.

4.4.2 Coarse Grain and Livestock Subsector Interrelationships

USAID/Mali is investing heavily in agricultural and livestock research over the next 4-5 years. While cereals policy and regulatory reform in Mali has been successful, heavy investment in cereals production technology could lead to overproduction, farmer dumping of grain on the market at below cost, and saturated domestic cereals 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 affected by income levels and distribution in different West African countries. 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 is fed to livestock. Finally, whether coarse grain is fed to livestock in Mali and other Sahelian countries will depend on the extent to which farm level productivity is upgraded. Without significant productivity increases, Malian producers will not be able to produce and sell grain at low enough prices to justify 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.

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ANNEX F

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN NIGER

1. Introduction

Niger was chosen for initial examination due to the Government's efforts at economic policy reform, the importance of agriculture to the economy, and the role USAID has played in implementing policy reforms and promoting private sector involvement in agricultural marketing and agribusiness.

In 1983, the Government of Niger (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:

- Public resource management -- increase efficiency and productivity of existing resources and investments.
- Parastatal reform and divestiture -- increase efficiency of public enterprises and encourage private investment.
- Agricultural policy -- 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.

The reforms have helped 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 will require more than structural reforms, especially given the country's resource and human capital limitations. There is a need to assist the private sector in taking advantage of the new economic environment created by liberalization and reforms.

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 and sheep, and chickens. Food and livestock production levels vary greatly from year to year due to erratic rainfall (both amounts and distribution) which makes the country vulnerable to drought conditions. When rainfall is adequate the country is largely self-sufficient in food. Unfortunately, famine remains a major threat, although improvements in early warning systems and food aid distribution have provided at-risk populations with a margin of safety. Given the importance of agriculture in the economy, drought conditions tend to have a major effect 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. Unfortunately, the world market for uranium has been very weak throughout the 1980s, resulting in a much lower level of export revenues than forecast by the GON (although uranium still accounts for about 3/4 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, principally from donor agencies. Other exports that also generate foreign exchange include livestock (live animals or 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.

Key Indicators of Economic Performance

	1980	1989	1980-1989
Population (millions)	5.5	7.5	
Annual Population Growth Rate			3.3%
Urban Population Growth Rate			7.7%
Urban Population/Total Pop	13.2%	19.0%	
Per Capita GNP	\$440	\$290	
Average Annual Growth in GDP			-1.6%
Inflation Rate			3.8%
Debt Service (% of Exports)	27.1%	32.1%	
Agriculture Contribution to GDP	33%	36%	

Source: World Development Report, 1991; World Tables, 1991.

3. Economic Reforms and the Agricultural Marketing System

Until the initiation of the economic reform program in the 1980s, the GON participated heavily in the marketing of cereals through parastatal organizations. The Société Nigérienne de l'Arachide (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.

The process of economic reform in Niger has resulted in the adoption of specific policy measures that have helped to improve the agricultural marketing system. Liberalization measures related to agricultural marketing and pricing include the elimination or reduction of export taxes and subsidies, the simplification of restrictive fiscal and administrative procedures, the removal 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 that cowpea exports to Nigeria have expanded and that agricultural inputs supplied to farmers by the private sector have increased.

One important constraint on the development of agricultural marketing and agribusiness is the overvaluation of the CFA franc relative to the Nigerian naira. This has adversely affected the competitive position of Niger 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.

4. Summary of USAID/Niger Program

USAID/Niger has encouraged the GON to diminish its role in directing and controlling agricultural production and marketing of agricultural products, and to rely more on the private sector. Specific assistance has been provided in the form of balance of payments support to help the government financially and technical assistance and training to help implement policy reforms and stimulate economic growth.

The USAID 1988 mission strategy identified the important long-term objective 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 order to help the GON carry out economic and social structural reforms and make the economy more efficient (through structural adjustment), USAID has provided non-project assistance through 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 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 meeting conditions related to input supply, subsidies, and input pricing; cereals marketing and pricing; cross-border trade; and agricultural credit.

ASDG I and II

The Agricultural Sector Development Grant I (ASDG I), 1986-1992, 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 input pricing -- the goal was to gradually reduce the maximum level of subsidy on agricultural inputs to 50 percent and then 25 percent.
- Cereals marketing and pricing -- including the abolition of pan territorial national pricing for cereals.
- Cross-border trade -- reducing administrative and fiscal constraints, particularly on trade of livestock and cowpeas.
- Agricultural credit -- study agricultural credit and savings and formulate policies to promote the development of effective rural financial markets.

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 and \$3 million was provided for resident advisors, short-term consultants, seminars and workshops, training and program evaluation. By 1987, the ADSG I has disbursed all of the local currency funds which helped the GON meet certain financial targets specified under the country's stabilization program. ASDG II was extended until 1992.

USAID has designed a follow-on program, ASDG II, which builds on the policy reform program begun under ASDG I. Under ASDG II, USAID aims to assist the GON in establishing a legal and policy framework for more effective management of natural resources. ASDG II will provide the GON with a total \$20 million in four tranches in return for GON implementation of a specified set of policy reforms and conditions. In addition to budgetary support to the GON, ASDG II will also provide grant funds for technical assistance, and training. The major thrusts of ASDG II are in mobilizing markets, creating price incentives, and encouraging private initiative. 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)."

NEPRP

Through NEPRP, USAID provided funds \$13.3 million in grant funds to compensate the GON for the short-term costs of undertaking fiscal and regulatory measures. 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 several studies to gain a better understanding of the constraints and opportunities in agribusiness and to determine the impact of reforms suggested to the GON.

The NEPRP studies analyzed 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.

- Livestock -- trade liberalization, increased incentives, improved market information, and applied research.
- Hides and Skins -- more timely supply of inputs, improved drying and processing facilities, better trained 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 adopt a new Code of External Commerce and emphasize better service to agribusiness; donors should continue to support the GON in carrying out reforms.

Based on the recommendation and NEPRP conditionalities, the GON eliminated export taxes and licenses, streamlined export procedures, and posted a commercial attaché in Kano to provide Nigerian trade data to Nigeriens. The GON is also revising its trade laws and has already published a new business charter to improve the business climate. There are encouraging signs in the hides-and skins sub-sector: a new private company has emerged, and the now privatized parastatal hired a new manager to help improve production quality. In the cowpea subsector, unfortunately, Nigeria imposed a total ban on cowpea imports in 1990. The ban does not stop clandestine exports from Niger; it succeeds only in forbidding formal trade ties and increasing transaction costs (bribes). In onion marketing, a feuillet statistique (statistical

form), introduced by the GON to collect data, confuses exporters and adds to their costs. Despite these administrative barriers, progress has been made in economic reforms. However, many have taken effect only recently, so their impacts are yet to be fully felt.

Other Agricultural Development Projects

USAID/Niger is supporting credit union development through a project implemented by the World Council of Credit Unions (WOCCU) which aims to promote mobilization of savings in rural areas by improving the capacity of financial intermediaries to provide access to credit. Other USAID-funded activities include a cooperatives project, a variety of small grant efforts in support of resource management activities that are not tied to ASDG. Also, USAID/Niamey provides financial assistance to the Institut National de Recherche Agricole du Niger (INRAN).

5. Syntheses

5.1 Approaches

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. Through the \$19 million Agricultural Marketing and Export Promotion Project (AMEP) project, USAID will promote the development of market services and infrastructure through participant organizations, and provide market development and promotion services to both the GON and private associations. This approach is a direct outgrowth of the NEPRP commodity-specific policy studies which recommended activities that could be undertaken in order to remedy some of the dysfunctions and inadequacies found in agricultural production, marketing, and export sectors.

The approach of the Mission to supporting policy reform is changing now as more emphasis is being placed on activities that represent logical follow-up to specific policy reform measures. The AMEP project, which is presently in the design phase, 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).

5.2 Lessons learned

The GON's openness on policy reform was an essential element in undertaking the program which requires broad consensus among host government, A.I.D, and other donors. The conditionalities for policy reform were too inflexible, although time constraints were flexible. Program designers need to balance the firmness of the reform with AID's ability to respond to

changing and unforeseen circumstances. If such circumstances complete a change where program design offers no flexibility, then the program loses credibility. The program is more effective and credible when the process rigorously examines certification of conditions precedent. Unjustified disbursement undercuts the credibility of policy reform and sends the wrong signals to policy makers.

Part of the ASDG/NEPRP reform involved limitation of SONARA's legal monopoly on cowpea exports. For both cowpeas and livestock, official trade is primarily done by large trading enterprises. Because these firms handle large volumes, smuggling is more difficult and they often have the resources to go through official channels. Unofficial trade is dominated by small trading operations. Aside from the exports handled by state enterprises such as SONARA, agro-pastoral trade with Nigeria is almost exclusively a private sector activity. Cooperatives do not appear to be involved with this trade.

5.3 Agribusiness Indicator Measures

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 is available on per unit marketing costs 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 is to begin in 1992.

5.4 Information Gaps/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 the sample data, using population data. There has been no national census in Niger since independence in 1960; data on population and farm size are therefore highly suspect.

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, which represents a new market information channel for agribusiness.

Unfortunately, official trade statistics provide little information on the current situation at any point of 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 good data, rapid appraisals have been used to determine how reforms have affected market performance. Rapid appraisal methods rely on 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 not complete sample frame exists. 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.

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ANNEX G

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN RWANDA

1. Introduction

The choice of Rwanda as one of the countries to be investigated during Phase I of the 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 caused 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 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.

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 undergo difficult macroeconomic adjustments.

More recently, Government of Rwanda (GOR) has begun to give priority to policies that aim to achieve greater food security through liberalization of markets.

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	1989	1980-1989
Population (millions)	5.1	6.9	
Annual Population Growth Rate			3.2 %
Urban Population Growth Rate			8.1 %
Urban Population/Total Pop	5%	7%	
Per Capita GNP	\$240	\$320	
Average Annual Growth in GDP			1.5%
Inflation Rate			4.0%
Debt Service (% of Exports)	4.2%	18.5%	
Agricultural Contribution to GDP	48%	37%	

3. Rwanda Agricultural Marketing and Economic Reform

Given the economic crisis facing the GOR, policy reforms that lead to improvements in agricultural marketing are critically needed. GOR assistance to merchants and others in the agricultural marketing chain is 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.

3.1 The Rwanda Private Enterprise Development Project

The six-year, \$5 million Rwanda Private Enterprise Development (RPED) Project, begun in 1985, 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 decreased significantly in importance upon commencement of the PRIME 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; it was decided to provide training specific to certain commodities or industries, and thus focus the content to deal with technical and managerial aspects of the business; 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 PACD 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 determined as the thrust was manufacturing, and such sectoral distinctions are not made in project documents.

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 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 the market-driven system;

- 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 disbursement 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 Approaches

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 cooperation between the two appears to have been minimal; nevertheless, working on several fronts created a larger critical mass of 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 for them 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 evolution of market players and their capacity to respond based on their current level of sophistication is needed to help make programming decisions balancing 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 H

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 agricultural/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 diminish its management role in the market system, the GOT has resisted through quiet noncompliance (although GOT insists it is in compliance) with SAP conditions and conditions precedent for USAID. Slow progress, however, has been made to ward more liberal markets. The value of the Togo experiences for this analytical study is in identifying the resistance, causes, and potential solutions that could begin to address such situations.

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 Economic Performance

	1980	1989	1980-1989
Population (millions)	2.6	3.5	
Annual Population Growth Rate			3.5%
Urban Population Growth Rate			6.9%
Urban Population/Total Pop	19%	25%	
Per Capita GNP	\$420	\$390	
Average Annual Growth in GDP			1.5%
Inflation Rate			5.2%
Debt Service (% of Exports)	9.0%	11.3%	
Agriculture's Share of GDP	26%	33%	

3. A.I.D.'s Economic Growth 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 are attempting to address the issues restraining liberalization and privatization of commodities, focusing especially on cereals export. A barrier to this focus has been the GOT's view of SAP activities and the A.I.D. project as merely measures that address specific transactional events resulting from Togo's managed trade posture. A.I.D. and the World Bank, on the other hand, view the activities as progress toward an open market and liberalized trade regulations. This dichotomy of purpose 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 export are applied at the borders. 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, and 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. Higher production by farmers would then strengthen the marketing system (Kaufman et al, 1991). The mid-term evaluation recommends dropping the assistance to producer groups, 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 above affected the private sector or its ability to respond to market opportunities.

CARE's micro-enterprise 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 organization and 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 activities.

One area reportedly meeting most objectives was training. However, while the number of trainees appears to have exceeded projections, the evaluation indicates that the impact of training has been less possible (i.e. unclear whether the skills learned were applied in the workplace). Other issues raised in the evaluation are sustainability, and competition with other available training, as CARE charged below-market prices for training available through other sources, thus competing with the local market.

The FUCEC (Fédération 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 capitalization 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).

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 entrepreneurship 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 the result of improved enterprise development and market efficiency. It is unclear whether the Mission attempted to clarify this distinction to CARE during design and early implementation.

The evaluation team made at least one unrealistic proposition for change in the TRIPS project. Team members recommend that CARE address policy constraints to enterprise development under the policy dialogue component. However, without the leverage of a SAP or the ability to set preconditions as a part of project implementation for an ongoing activity, it is unlikely that a PVO can expect to change or influence GOT policy. The evaluation also calls 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 definite problems existed in the credit component (as well as other components of the project), guidance is needed to clarify the end result and identify the best path to achieve this result, not 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 are not 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) program, 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 cereal in 1987). Experts see the methodology used to analyze the data as 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 which 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

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 may be compromised in the implementation process. In Togo, the GOT's goals for policy reform were limited by time and situation to dealing with specific results of their overall managed market policy. They neither understood nor were convinced of the potential of the strategy 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 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 thus 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 do 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 need may exist in international markets, but is even more important on a regional basis where small countries such as Togo are likely to be competitive. Traders (and producers) lacking timely producer and consumer price information have little ability to respond to opportunities which may appear and disappear quickly. The domestic market will also not be responsive and prices will be incompatible with prices in other countries in the region, possibly pricing the commodity to be traded out of the market.

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 decisionmaking tool.

- The GOT needs a better method of forecasting cereal production. The current system, though apparently well implemented, does not disaggregate data by region, and does not 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. As a result, the GOT has revoked export licenses even in surplus seasons, due to a 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 I

AGRICULTURAL MARKETING AND AGRIBUSINESS PROGRAMS IN UGANDA

1. Introduction

Uganda was chosen as one of the countries in the initial assessment for several reasons. Up until the early 1970s when Idi Amin came into power, Uganda was one of the richest, most socially and economically advanced countries in Africa. Uganda has a very diversified agricultural production base as a result of good soils, rainfall, and two growing seasons. Unfortunately, when the NRM Government took power in 1986 after 17 years of civil strife and poor economic management, the economy was shattered, the physical plant destroyed, and there was very little left of what was a talented manpower base. A major structural adjustment effort and stabilization program were required to remove major economic distortions and create the incentives necessary for economic growth. Significant and encouraging progress has been made since 1986, with the economy growing by 6-7% annually since 1987.

A.I.D.'s focus starting in 1986 was necessarily on rehabilitation and resettlement. By 1989, the emphasis had shifted to expansion of agricultural production, improved input distribution, and food crop processing and marketing (USAID FY 1989/90 Action Plan). The FY 1992 Congressional Presentation states that A.I.D.'s current strategic focus is on assisting the Government in reforming economic policy, with an emphasis on an improved policy environment for export diversification through private entrepreneurship.

2. Key Indicators of Economic Performance

Uganda's inflation rate has declined over the past three years from over 200% to 25%, and non-traditional agricultural exports increased from \$3.7 million in 1988 to \$14.8 million for the first six months of 1990 (Congressional Presentation, FY 1992). Since 1986, Uganda has made impressive progress in stabilizing, restructuring, and rehabilitating its economy. Substantial progress has been made in economic liberalization and privatization, although SOEs still dominate the marketing of maize and beans. Despite declining prices for coffee (which provided over 90% of total export earnings in 1988), 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	1989	1980-1989
Population (millions)	12.6	16.8	
Annual Population Growth Rate			3.2 %
Urban Population Growth Rate			5.1 %
Urban Population/Total Pop	8.7 %	10.2 %	
Per Capita GNP	\$280	\$250	
Average Annual Growth in GDP			-2.8 %
Inflation Rate			108.1 %
Debt Service (% of Exports)	13.2 %	77.0 %	
Agri. Contribution to GDP	76.0 %	67.0 %	

3. The Economic Reform Program and Agricultural Programs and Projects

Significant policy reforms have occurred over the last several years supported by USAID, World Bank, EEC, UNDP and other donors. A structural adjustment and economic recovery program designed by the IMF and World Bank was instituted in May 1987. The GOU has since liberalized the foreign exchange regime, allowing private foreign exchange bureaus to operate, continued to devalue the official exchange rate, and enacted a new investment code designed to promote more domestic and foreign investment. Liberalization of marketing of tea and coffee has occurred, allowing private firms to export. Export certificates and border permits have been introduced, replacing a cumbersome and time-consuming application process for an export license. USAID/Uganda is playing a key role in supporting the new Uganda Investment Authority, 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. Evidence of donor coordination in Uganda is demonstrated by the World Bank's commitment of funds to USAID's non-traditional agricultural export program.

4. Agricultural Programs and Projects

3.1 The Agricultural Non-Traditional Export Promotion Program (ANEPP)

USAID's ANEP program was started in 1988 with the goal of supporting the GOU policy reform program, which focuses on increasing Uganda's non-traditional exports¹.

The program has three components:

- support for policy and regulatory reforms (through its conditionality) aimed at liberalizing 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.
- a commodity import program (CIP), funding imports of critical inputs and capital items required by producers, processors, and exporters of non-traditional exports.

An evaluation of this program (Herlehy, Oct. 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, 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.

The CIP component of the ANEP program was found to have had a beneficial impact on specific agribusinesses that were recipients of imported commodities under the program, and had

¹ The GOU defines non-traditional as any export other than coffee, which earned over 90% of total export earnings in 1988.

also had a positive impact on investment and maintenance of transport services which are extremely important for NTEs (Herlehy, 1991).

3.2 The Cooperative Agriculture and Agribusiness Support (CAAS) Project

CAAS started in 1989, and was designed to work at the same three levels as ANEP:

- policy reform, focused on input distribution and commodity marketing;
- institutional development, focused on a select set of key organizations in the agricultural arena; and
- increased input supply through a CIP, focused 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. It involves providing 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 society matching grant program.

Agribusiness development in Uganda substantially predates Independence in 1962 with major investments in cotton, coffee, sugar, tea, and tobacco. From 1962-1972 both agriculture and agribusiness grew substantially. 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. For many agro-industries production in 1980 was only a tenth or less of production in 1970.

The marketing of coffee, cotton and tobacco has been through the cooperative movement, although a considerable proportion of the coffee is handled by private buyers. The cooperative sector is well developed in Uganda, and has performed the function of farm input distribution for many years, despite many problems including severe mismanagement in the last twenty years. An important premise of the CAAS project is that the cooperative sector offers the only substantial approach to farm input distribution in Uganda.

In 1991, CAAS was redesigned to narrow the commodity focus of the program to coffee, non-traditional crops, and rehabilitation of the edible oil industry (Dwayne Ericksmoen, CAAS project, personal communication). They will also be creating a commercial unit to assist cooperatives in exporting non-traditional crops and provide a long-term agribusiness advisor.

3.3 Manpower for Agriculture Development Project

The focus of this project is agricultural production research, although it appears that increasingly issues of commodity marketing are also being examined.

3.4 Rehabilitation of Productive Enterprises Project

USAID/Uganda has been providing assistance under this project to privatize 593 agricultural and agro-industry properties taken from the Asian community in 1972 by the Amin Government. This project has provided foreign exchange and financing of imports required to put previously productive agricultural firms back in business. It has also supplied foodcrop credit to medium and large-scale producers.

3.5 Marketing and Agricultural Research Strengthening Project (MARS)

This is a new non-project assistance program (the project design will take place in the second quarter of FY 1992) with the objective of strengthening economic research and policy formulation by linking production, technological innovation, and market demand more closely, and 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 areas of production economics, the structure, conduct and performance of commodity markets, and the costs and benefits of alternative private and public sector investments at the farm, market, and infrastructural levels. This program will concentrate on training and TA, and will attempt to strengthen linkages between U.S. Universities and Makerere University.

Research areas that have been identified include agricultural marketing constraints, market information, and rural transportation linkages. One of the program's objectives is to strengthen data collection systems and analytical and policy formulation skills (presumably within the public sector).

4. Synthesis

4.1 Lessons Learned

The three-pronged approach taken by USAID/Uganda, including support for policy and regulatory reform in the foreign exchange regime, institutional support (for EPADU), and commodity-specific support for key export firms, has apparently been quite successful and has resulted in a high growth rate for NTEs.

Some of the most difficult constraints to overcome in Uganda arise due the lack of marketing experience by producers and exporters. Issues of short-run profit versus developing long-term marketing arrangements arise frequently. 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. Because this type of institution-building is a long-term process, the types of training USAID/Uganda is providing is extremely important (and maybe should be expanded to include more producers).

4.2 Approaches

USAID/Uganda is making a transition from projects focused on rehabilitation and food aid (necessary after many years of civil war) to a strategic focus on assisting the Government in reforming economic policy with an emphasis on promoting the private sector.

USAID/Uganda's current agricultural program consists of several complementary activities: research and training, commodity imports, input distribution, crop production, and processing and marketing. These activities focus on food and horticultural crops, and with the exception of research and training, are being implemented largely by the private sector.

Overall, their approach within the last five years has been very much in line with Africa Bureau's suggested approach of promoting policy and regulatory reform, infrastructural and institutional rehabilitation, and strengthening market participant capacity.

4.3 Information Needs and Gaps

A recent study under the Manpower for Agricultural Development Project (Uganda: Accelerated Foodcrop Production Strategy, Ministry of Agriculture, April 1990) recommended that the government provide information on current prices, crop conditions, regional crop deficits, transportation costs, margins, value-added activities, and outlook. It also recommended that the Ministry of Cooperatives and Marketing should collect and report on rural and urban foodcrop prices weekly, and reported through radio and newspapers. There may be important lessons in Kenya's or Mali's Market Information Systems that may help Uganda as it moves in that direction.

Through its exporter survey, EPADU is providing valuable information as to the constraints faced by exporters, and ways in which EPADU can help address them in the future. 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.

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ANNEX J

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 the 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.

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. The highly dualistic ownership of productive resources in the agricultural sector means that the majority of agricultural commercial activity comes from a small percentage of farmers and a disproportionate, but still small share of arable land.

Key indicators of economic performance include the following:

	1980	1989	1980-1989
Population (millions)	7.0	9.6	
Annual Population Growth Rate			2.7%
Urban Population Growth Rate			6.0%
Urban Population/Total Pop	21.9%	27.1%	
Per Capita GNP	\$710	\$650	
Average Annual Growth in GDP			2.7%
Inflation Rate			10.9%
Debt Service (% of Exports)	3.8%	26.0%	
Agriculture Contribution to GDP	12%	13%	

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.

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 mil) 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) program, 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). As with 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,

the operation and performance of grain markets, and constraints facing the development of private sector grain trade.

(May want to fill in more specific on regional programs here)

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 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 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 these problems:
 - 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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