The Impact of Globalization on the Agricultural Sectors of East and Central African Countries

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Association for Strengthening Agricultural Research in Eastern and Central Africa

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ASARECA/IITA Monograph

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The main themes of the report

The process of globalization affects many aspects of agriculture and the wider economy. In order to explore the main issues facing African countries, this report has divided the issues into eleven themes.

1. **Historical context.** Agricultural activity in Eastern and Central African countries has been greatly influenced by those countries' long relationship with the rest of the world. Many of the structures used to assist producers and to distribute and market products have been inherited from the colonial era. The pressure to liberalize agricultural production and marketing began thirty years ago.
2. **Globalization: a trade revolution.** The term globalization describes the international capitalist movement that is transforming world economic affairs today. The process is based on a combined effect of rapid advances in technology, global financing, information access, and communication. Mass access to these factors has catalyzed a period of exceptional economic growth in the industrialized nations during the past 10 years and the impact of globalization will be the most influential vehicle of change in the next decade.
3. **The impact of liberalization on agriculture.** The objectives of the liberalization process beginning with economic structural adjustment programs which were adopted by most African countries, and how these changes have affected agriculture and agricultural communities.
4. **International trade agreements.** Agreements between trading partners governing imports and exports of agricultural commodities and agricultural input. The agreements governing trade with Europe, World Trade Organization agreements, and regional trade.
5. **Trade negotiations.** Mechanisms of negotiating trade agreements and the difficulties encountered by developing countries in their attempt to represent their countries' interests in these negotiations.
6. **Agricultural markets**. The growing influence of market mechanisms over the production and distribution of agricultural products and agricultural inputs. The changes that have occurred in agricultural markets at the local, national, and international level.
7. **Agricultural market infrastructure.** The impact of liberalization on the means by which agricultural products are marketed including transport, contractual arrangements, credit provision, and the provision of market information.
8. **The postadjustment agenda.** In recent years, enough evidence has been accumulated to enable observers to identify the positive and negative aspects of the globalization process. Discussion has moved on to how developing countries can best take advantage of new opportunities and how they can protect themselves, either by changes in local policies or with international assistance, from the negative aspects of globalization. This agenda will influence the evolution of policy in trade negotiations, agricultural research, and agricultural development.
9. **A profile of individual countries.** The specific difficulties of individual East and Central African countries in an increasingly globalized world.
10. **Conclusions and recommendations.** This section will suggest recommendations to government agencies and the other public and private agencies working in agriculture in the region.
11. **Sources of information and information links.** This section includes annexes regarding the globalization debate, futures markets, and new ideas on managing markets.

Executive summary

Globalization is the term used to describe the recent impact of innovations in communications and transport systems on trade and the growing interdependence of countries due to economic sophistication and burgeoning output. These innovations have encouraged nations to reduce the high levels of protection between trading blocs of countries and to adopt policies to liberalize their economies in order to increase their volume of trade, including trade in agricultural products.

It has been proved that for many countries increased economic liberalization and openness leads to growth. It has also been recognized, however, that for some countries and for some communities within countries, the transition from a protected, centrally controlled economy may bring with it serious, negative, short-, and medium-term consequences.

Some East and Central African (ECA) countries have recognized the importance of striving to increase their role in the international economy and have, over the last two decades, adopted appropriate economic measures—others have done so more recently. These measures have resulted in benefits to ECA countries including the stimulation of private-sector trading networks needed in a modern economy. However, the risks associated with adopting a more exposed position in a highly competitive global agricultural market have presented these countries with some serious difficulties. A combination of the impact of structural adjustment programs and partial reform of the rules governing international trade has reduced the prices of primary commodities exported by ECA countries and caused an increase in imports of agricultural products from more competitive producers, some of which remain highly subsidized in their country of origin.

The result of oversupply and weakening demand due to the current recession has led to commodity prices falling to a 40-year low and analysts suggest that commodity prices are likely to remain at these low levels for the foreseeable future. This bleak outlook is reflected in the dramatically falling terms of trade for many ECA countries and suggests a profound downturn in their economic outlook and performance. The international community has recognized some of these difficulties and has made some effort to assist these countries to overcome them. Much remains to be done by these countries themselves, however, to take advantage of the opportunities offered by globalization and to ameliorate the negative impacts of the process.

In the next round of World Trade Organization (WTO) talks, the radical reform of the trading relationship between ACP countries and the EU and the establishment of closer regional economic cooperation will have further major implications for agriculture.

In the opinion of the authors of this report, ECA countries have not appreciated the scale and implications of these changes and that, without urgent action on their part, they may seriously weaken their economies in the years ahead. Measures need to be adopted by a very wide range of agencies in both the public and private sectors. These range from a major effort to increase the understanding of issues in multilateral trade negotiations, urgent efforts to devise strategies to reduce economic dependence on primary commodities, and major reforms of agricultural development and research strategies.

This report attempts to set these issues in an historical context, to highlight the main issues that need to be addressed, and to list important questions that need to be asked of policy-makers throughout the agricultural industry. The conclusions of this study are that decision-makers should give urgent consideration to the following suggestions:

- **Strengthening negotiating capacity in trade talks**
  African countries have been disappointed by the effects of decisions made in previous WTO and African, Caribbean, Pacific-European Union (ACP–EU) negotiations. ECA countries are poorly represented in these and other multilateral and bilateral talks and they lack the capacity to analyze important and highly complex issues, to develop negotiating positions, and to respond quickly and effectively to their various negotiating teams. Consideration should be given to establishing national and regional teams of experts with the necessary authority to analyze the interests of their stakeholder groups and to establish appropriate negotiating positions. Negotiating teams should be significantly strengthened in Brussels and Geneva especially. Resources should be made available by cutting diplomatic expenditure in other countries where necessary. The negotiators need to be directly linked to the policy analysis groups and to the line Ministries of Trade, Agriculture, and Finance, such that informed decisions can be made rapidly and effectively. Such reform will be particularly necessary in the forthcoming WTO trade round which will focus on greater inclusion of developing country interests and may take into account proposals associated with "Development Box" (see page 48) and other nontrade issues proposed by developing countries.

- **Managing the oversupply of primary product exports**
  Over the last two decades, the adoption of internal and international market liberalization polices has led to a catastrophic fall in the prices of many of the agricultural products exported by ECA countries. The plunge in prices has been caused by systemic overproduction stimulated by components of structural adjustment programs. Economists call this phenomenon, the *fallacy of composition*, i.e., less income is earned as more commodities are produced. ECA countries are highly dependent on the production of cash-crop commodities for employment, economic growth, and export revenue.

  Countries that produce and export raw commodities such as coffee, sugar, tea, cotton etc. through small-scale production systems are unable to create new jobs or re-invest into alternative market sectors. Countries and individual farmers, who rely on cash-crop production for revenue, are obliged to continue to grow and sell these commodities, no matter how low prices fall.

  To address this issue, efforts should be made to find common causes with other producers of these commodities in Africa and in other continents to bring some order into these markets and to devise strategies that involve donors and support agencies such as the International Monetary Fund (IMF) and the World Bank to bring supply of these products in line with demand.

- **Enforcing existing trade protection**

  ECA–WTO members have agreed to limit the protection given to domestic farming. Fixed import tariffs still apply in many categories, however. Greater efforts should be made to increase the control of porous borders to discourage unwanted imports and to collect excise revenue. The dumping of heavily subsidized agricultural commodities from developed countries should be actively opposed where such imports disrupt local farming economies. These efforts need to be pursued within the WTO mechanism and in bilateral exchanges.

  Efforts should also be made to analyze the impact of imports of food aid and food magnetization schemes on domestic and regional farming. Such imports should be controlled with the objective of meeting relief needs whilst avoiding the undermining of local and regional production.

- **Stimulating production of added-value products**

  Most analysts believe that the prices of primary agricultural commodities will continue to fall in the foreseeable future. Unless the mix of industrial activity is changed, economic growth will not occur.

  The "Everything But Arms"(EBA) initiative" the "Africa Growth Opportunity Act" (AGOA), and other similar market-access measures now offer Least Developed Countries (LDCs) in ECA the opportunity to attract investment into the region to improve the quality and range of products and, more importantly, to produce added-value products from locally produced raw materials. Every effort should be made to capitalize on these opportunities by promoting inward investment now that many tariff barriers to added-value products have been removed in the main consuming markets. (Kenya should seriously consider applying to be reclassified as a LDC for this reason.)

  Consideration should be given to strengthening the role of existing export and investment promotion organizations to include the preparation of detailed investment plans and packages in added-value products that will attract greater foreign direct investment (FDI). Tax regimes should be modified where necessary to encourage this form of investment. Vertical diversification may represent the only option for ECA countries to avoid the economic damage caused by falling, raw commodity prices.

- **Establishing an agricultural market analysis unit**

  An agricultural market analysis unit should be established in each ECA country. This unit would be concerned with coordinating and developing policy on the development of market-orientated strategy in agriculture and setting policy guidelines for agricultural research. The Unit should also coordinate its activities with relevant regional bodies. It should be staffed with appropriately qualified economists and market experts. The Unit should work closely with the private sector and, especially, with those private-sector support groups working to stimulate production for growth markets.

- **Establishing a national market education program**
  Many actors in the agricultural sector in ECA countries are still not familiar with the idea of competitive markets. A national market education program should be established, targeted primarily at farmers, traders, and agricultural product processors. Such a program needs to be linked to the agricultural market analysis unit (see above) and market information service (MIS) (see below) and be run in conjunction with other stakeholders including Ministries of Agriculture, Education, and Trade, farmers' and traders' associations, other private-sector actors, and extension services.

  The program needs to set targets for training farmers to understand how competitive markets work, to take advantage of market information, and to inform them of the difficulties and opportunities associated with market conditions. Issues addressed need to include the stimulation of collective activity to improve economies of scale, linking supply variety and quality to market needs, negotiation of sales and inputs, and the use of credit and business management.

  The program should have a limited duration and should be administered efficiently as a separate unit within a national agricultural development reform program.

- **Establishing a market information service**
  Many typical, small- and medium-scale farmers, traders, and processors in ECA countries are very poorly informed about prices and market conditions of the commodities they produce. Farmers find themselves in a weak bargaining position with traders which results in lower-than-market farm-gate prices, high transaction costs, and wastage. MISs need to be established at local, national, and regional levels to gather, process, and disseminate market information in the appropriate language of intended recipients. Such services need to be fully coordinated with each other and involve full participation of stakeholders.

  The aim of these services should be to stimulate more competitive markets. They are likely to be supported by the agricultural industry itself as they are in more developed countries, once competitive markets become more established.

- **Strengthening agricultural research and extension and services**
  Research and extension services need to continue with their vital role in controlling plant and animal diseases and pests, discovering and distributing new varieties, training farmers to improve their technical abilities, etc. If ECA countries wish to compete successfully in the world economy, however, these institutions need to develop or acquire new skills and expertise in market analysis and market linkage. Producers need to ensure that there are viable markets for any existing or new products. They need to ensure that the quality and packaging of those products meet the requirements of customers both on the domestic and export market. Research and extension services have a vital role to play in this effort and must be prepared to reform quickly to meet the challenges of globalization.

In many respects national research programs have succeeded in their goal to achieve food security. The current emphasis should now be to develop dynamic and commercially orientated research that supports improved market analysis, market access, and added-value processing. Extension services should now focus on assisting producers to trade more effectively within a liberalized market. Special attention should be given to aspects such as linkage of production to markets, access to credit, and collective marketing which will enable the millions of atomized, small-scale farmers to gain from economies of scale in their input and output markets.

Government research services need to work closely with the private sector which is increasingly developing its own research capacity, particularly in regard to higher value commodities and research related to issues and problems further up the value chain.

- **Reducing imports of goods that can be competitively produced domestically**
  Many ECA countries import fruit juices, soluble coffee, cooking oils, etc. when they are rich in all the raw materials needed to make these products and have low labor costs. An effort should be made to examine import data and to analyze the prospects for developing the local manufacture of such products and to encourage investment in the production of such goods but only if this can be done profitably without resort to market protection. It should be remembered that savings on imports are as valuable as export revenue.

- **Strengthening the legal framework for market activity**
  Market manipulation and collusion among traders to the detriment of farmers, consumers, and exporters are widespread practices in ECA countries. In some countries, road tolls and taxes are arbitrarily applied and often restrict trade and increase transaction costs. Where necessary, governments must institute a program to reform the legal framework within which agricultural product transactions take place, establish or reform laws of contract, outlaw restrictive practices, and regulate a competitive market in agricultural goods. In addition, governments must ensure that these laws are properly enforced.

The Impact of Globalization on the Agricultural Sectors of East and Central African Countries

Introduction

The purpose of this report is to assist policy-makers in government agencies and agricultural research and agricultural development agencies by offering an analysis of the impact of globalization on the agricultural sectors of East and Central African (ECA) countries (Burundi, Eritrea, Ethiopia, Democratic Republic of the Congo, Kenya, Madagascar, Rwanda, Sudan, Tanzania, and Uganda.)

This report records the findings of an IITA study conducted between September and December 2001. The research for the study was based on a review of relevant literature and interviews with agricultural trade agreement negotiators.

This report will be used as a basis for discussions with government agencies and directors of agricultural research establishments in the Association for Strengthening Agricultural Research in East and Central Africa (ASARECA) region. Responses will be added to an extended report in 2002.

East and Central African (ECA) countries

ECA countries are dependent on agriculture in many ways. The majority of the population in these countries are employed in the agricultural sector. Agricultural commodities represent by far the largest proportion of exported goods and the main raw materials for manufactured products. More importantly, the people of these countries depend on the agricultural sector for food. Agricultural development is the key to poverty reduction and food security.

Agriculture is the engine of most African economies and, in recent years, governments have become convinced that, by liberalizing their economies, agriculture would prosper and provide the necessary growth to provide investment to improve the country's infrastructure to form the foundation for industrialization and to improve public services. In the 1980s, some African countries began to reform their economic policies. Internal conflict, however, has delayed reform in many ECA countries and they have only recently begun to liberalize their internal economies. Over the last twenty years, there has also been an accelerating trend to liberalize trade on a global scale.

The success of these global reforms and internal liberalization measures (for those countries that have adopted them) has been patchy. Most African countries have found it

difficult to compete with more efficient foreign agricultural producers and are suffering surges in imported products, which compete with domestic production. At the same time, the expected improvement in exports of these products has not materialized. This may be due, in part, to the difficulties of complying with the high quality standards required by many importing countries. The international market prices of most agricultural commodities have fallen to their lowest levels (in real terms) in living memory. This is due to overproduction encouraged by the export-orientated economic policies of competing producing countries. The cut in agricultural subsidies in the developed world has reduced surplus stocks of food, which has had the effect of reducing supplies available for food aid.

It has now become clear that although a link between economic growth and the liberalization of the economy has been established for some types of economy, it has not been established for others.

In a World Bank commissioned paper, O. Baniane and N. Mukherjee of the International Food Policy Research Institute made the following observation:

> *The growing (and seemingly established) consensus among development economists and policy-makers is that outward-orientated developing countries grow more rapidly than those that are not. While the precise role of exports in improved total growth is not yet fully understood, mounting evidence suggests that there exists a strong positive association between export development and the acceleration of income growth. It should be noted, however, that the literature establishes a relationship between exports of manufactured goods and income growth, but is less assertive about the relationship between exports of agricultural goods.*

Just as liberalization affects different countries in different ways, it has also produced winners and losers in different parts of the agricultural sectors within individual countries.

The lowering of tariff barriers by consuming countries has offered more opportunities to exporters in developing countries. The exposure of agricultural production to foreign competition has forced some producers to become more efficient. The dismantling of government-controlled marketing boards has stimulated the evolution of private-sector trading networks needed in a modern economy. Some actors in the agricultural sector have seen little benefit from the liberalization process, however.

Communities of small-scale, isolated farmers (which make up the majority of the population in many ECA countries) find it more difficult to obtain inputs and credit. Extension services have been significantly reduced and the value of their surplus production has fallen. They are especially vulnerable to changes in production systems. The trend towards larger farms and plantations in the name of efficiency has marginalized many rural groups thus adding to the problem of unemployment, urbanization, and cultural disintegration.

The effort required to address these problems and challenges will have to be made by many agencies. Trade agreement negotiators, government agencies, agricultural development and agricultural research organizations, nongovernmental organizations (NGOs), and private-sector farmer, trader, and processor associations all need to be fully aware of the changing relationships between markets and all the different actors in agriculture, and shape their policies and programs accordingly.

This report examines the main benefits and disadvantages of the trend towards globalization and the liberalization of agricultural markets. It also attempts to offer some suggestions on how ECA countries might maximize opportunities offered by a more open global trading system and how they might respond to some of the negative aspects of liberalization. In particular, the report will highlight key issues that need to be addressed by all agencies involved in agricultural development in an increasingly globalized economic environment.

Historical Context

Early trade and colonialism

East Africa has a tradition of trade, especially with the Arabian peninsular and Southern Asia, going back several thousand years. Arab merchants developed trading links with many African kingdoms and established settlements on the coast before the 8th century AD. Trade routes were established into the interior of the continent to transport commodities such as ivory, gold, fur, gum, and slaves to the coast and Asian food products, such as bananas, coconuts, and some spices, were introduced.

European colonization began in the 15th century. The Portuguese charted the coastline and developed natural harbors for use in their trade with the East and they too began trading in African goods. The Portuguese were followed by the French and British and later by the Germans and Italians. Each colonial power began to explore further into the interior and to subdue the indigenous populations. The British, especially, recognized the potential for agriculture in the region and established plantations and farms. Large areas were colonized and territorial borders delineated. Cotton was produced as well as food crops and livestock. Local African agriculture was transformed with the introduction of crops from other parts of the world, notably those originating in the Americas such as sweetpotato, potato, maize, cassava, pepper, tomato, papaya, jackfruit, cocoa, passion fruit, pineapple, sisal, cashew nut, sunflower, groundnut, and tobacco.

In the late 19th century, the first railways were driven deep into central Africa. In certain instances workers were transported to Africa, especially from the Indian subcontinent, to work in the plantations and as laborers to build roads and railways. Indians with an entrepreneurial background were able to establish businesses that grew to represent a significant proportion of trading activity in some countries.

Europe's main commercial interest in ECA was its raw materials—minerals and agricultural products. The present transport system reflects those interests. Railways and major roads were designed to carry products from the interior to the coast, not to encourage or facilitate trade within the region. Borders between countries are largely arbitrary from an African point of view, and they often cut across the territory of populations with a common language and culture.

European companies dominated import/export trade in African products often holding a monopoly in specific commodities. Many of these companies not only organized the production of these commodities but also transported them and processed them locally or, more often, in their home country. Some, like the giant chocolate, tea, sugar, tobacco, and coffee companies, also marketed the finished product. In order to protect these monopolies, trade barriers had to be erected between African countries colonized by different colonial powers. At times, countries of the region were officially at war with each other as the French fought the English, the English fought the Germans, and so on. Such an environment, of course, discouraged the evolution of trading links within the region.

As urban populations grew and the number of plantation workers increased, the Europeans found it necessary to organize the distribution of food through governmental structures and to control both purchasing and retail prices.

Independence

The process of decolonialization began after World War II and most African countries gained their independence in the 1950s and 1960s. African governments generally retained the marketing structures and trade barriers bequeathed to them by the colonial regime, but they benefited from the relatively high commodity prices at the time. In the 1970s and early 1980s, some commodities, such as coffee, cocoa, sugar, and rubber, were the subject of International Commodity Agreements which maintained prices at a level agreed by producing and consuming countries. Some African countries experimented with collectivized production as a means of improving the economies of scale and others concentrated on self-sufficiency and import substitution. Many large commercial farms and plantations were retained and expanded.

In the post World War II period, European countries embarked on programs to develop their own agricultural sectors, partly in response to their experiences in the war, when large quantities of food had to be imported by sea at great cost both in money and lives. All developed countries were able to boost agricultural output through innovations in farming technology—machinery, artificial fertilizers, pesticides, and new multiplication techniques. Farms too became bigger and more efficiently managed. During this period, developed countries also enjoyed unprecedented rates of industrial and economic growth. Trade in manufactured goods and services increased enormously. Transport systems improved by air, sea, and land, and communications systems were developed to facilitate trade. Trade in raw materials and agricultural products have become a relatively minor component of international commerce. Farming now represents only about two percent of total economic output in the most highly developed countries.

Traditional African farming methods do not lend themselves so easily to efficient, large-scale production.

Conflict

Burundi, Democratic Republic of the Congo, Eritrea, Ethiopia, Rwanda, Sudan, and Uganda have all suffered multiple problems from war or internal conflict. Their economies have been severely damaged by military expenditure, degradation of infrastructure, dislocation of populations, loss of labor to military activities, and neglect of and damage to farms and factories. Millions of ECA citizens have lost their lives over the last thirty years. Apart from the devastation of war itself, the disruption caused by conflict has delayed the implementation of economic reforms and development programs and many of these countries have lost their access to aid programs and investment opportunities.

The reasons for conflict have included tribal animosity, territorial disputes, remnants of Cold War conflict, totalitarianism, and religious intolerance. Some analysts have identified a link between conflict and poverty in which it is difficult to break the cycle of poverty

leading to unrest and unrest exacerbating poverty. At the end of 2001, however, there seemed to be some grounds for optimism. Most major conflicts in the region had been resolved or, at least reduced to a lower level of intensity.

Agricultural development strategies

The lack of development in African countries has caused their economies to fall further and further behind those of the leading industrial nations. Many different development strategies have been tried. Some African countries have successfully encouraged investment in mining, tourism, and industry. In agriculture, producers have been encouraged to move away from subsistence farming towards a more commercial approach as governments realized that income generated from the sale of surplus production could be used to improve productivity.

Agricultural development in ECA has faced an uphill struggle for the last twenty years. In an effort to stimulate development, many countries borrowed heavily from bodies such as the IMF and from the commercial banking sector. These loans were not granted without strings attached, however. Most African countries were obliged to liberalize their economies by adopting significant policy changes often applied in packages known as structural adjustment programs (SAPs). These programs included a number of elements but generally included requirements to:

- devalue the currency (to discourage imports and make exports more competitive)
- to make the currency freely convertible with other currencies
- to cut public expenditure (in order to lower taxes)
- to dismantle state-controlled marketing boards
- to privatize state-owned industries (to raise capital and stimulate competition)
- to cut import restrictions (to encourage local industries to become more efficient)
- to allow foreign companies to freely repatriate profits (to encourage inward investment)
- to boost exports.

The economists who designed SAPs were convinced that the only way African countries could transform their economies was to encourage inward investment and earn foreign exchange to invest in infrastructure and lay the foundations for industrialization.

These measures assumed that any country could compete in the world market if production and investment was concentrated in areas where they were deemed to have a competitive advantage. The only activity in which ECA nations could be said to have a competitive advantage in the world market was in the production of agricultural products and the exploitation of natural resources such as forestry, fishing, and mining. The major flaw in this strategy was that similar advice was given to almost all tropical countries at the same time. Coffee-producing countries were encouraged to boost coffee production; sugar producers should produce more sugar, and so on. This resulted in overproduction of these commodities, which caused prices to plunge in the international markets. On

average, current prices of tropical products (taking dollar inflation into account) are only about one seventh of those prevailing in 1980 (UN General Assembly). Economists call this phenomenon the *fallacy of composition*—less income is earned as more commodities are produced.

Another component of SAPs, which many observers believe to have been counterproductive, was the requirement to cut public expenditure. All too often this meant a cut in health programs, education, and agricultural extension. These measures have tended to reduce rather than enhance the flexibility of the workforce and to curtail agricultural development.

Overall, the record of inward investment has been poor and the ending of currency controls has increased opportunities for transfer pricing abuse (where companies overprice imports and underprice exports to reduce tax liability).

The most important SAP reform affecting the distribution of agricultural products has been the dismantling of state-controlled marketing boards and the practice of setting fixed purchasing and sales prices for commodities. It was assumed that government control of markets had obscured the forces of competition in supply and demand in the economy. A free market system would unleash these forces and increase productivity. It would force producers to meet the demands of consumers both in price and quality. Farmers would be able to buy inputs cheaper from competing suppliers, and the country, as a whole, would become more competitive in world markets.

Unfortunately, competitive and transparent markets did not emerge spontaneously. Most African farmers have too little land to produce truckloads of goods and they are widely dispersed over the countryside. There is not enough business to encourage more than one trader to operate in many areas. Farmers have no means of communicating with the outside world or even the nearest town and they are often unwilling to risk the investment of bringing their goods to market resulting in considerable waste. Laws may have been passed which ban collusion among traders to pay low prices to farmers and charge high prices to consumers, but there are often insufficient resources to enforce such laws. Most traders have no experience of free market conditions and are reluctant to put their fellow traders out of business with serious competition.

Advocates of SAPs point to examples of countries that have improved their economies after adopting SAPs but there are few in Africa. Most ECA countries were not able to implement SAPs until relatively recently, but rates of poverty have increased in many of these countries. Intense conflict, both within and between countries of the region, drought, desertification and, now HIV/AIDS, have further weakened economic development in ECA. Most critics of the reform process, however, acknowledge that markets in African countries must be made more competitive and SAPs are designed to do that but this process may take a considerable time.

Trade agreements

Economic links between ECA countries and their former colonial rulers have been maintained since independence. The economies of these countries have been molded to meet the needs of their European counterparts for a hundred years or more and it would

have been difficult for them to make the necessary changes in production patterns to trade successfully with other countries. The Europeans too needed to maintain supplies of raw materials and export markets in Africa and to protect the business of their trading companies. In 1975, all ten countries covered by this study became party to the Lomé Convention. The Convention established trade, aid, and cultural relationships between 15 European countries and 71 so called ACP (African, Caribbean, and Pacific) countries which had either been colonies of or had had strong historical links with Europe. This agreement did not rule out bilateral or multilateral agreements with other countries, but did give ACP countries preferential access to European markets. ECA countries have also decided to try to stimulate regional trade by bringing their economies closer together in regional economic agreements such as the Commodity Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC).

East Africans have exchanged goods and ideas with many other peoples of the world for millennia. In these exchanges of goods, cultural links have been established which have influenced ECA life at all levels—in religion, the arts, public-sector structures, the economy, and agriculture. In the last decade or two, however, this process has accelerated tremendously.

There is no agreed definition of globalization. It is simply a term, which has been used recently to describe the impact of innovations in communication and transport systems on trade and the growing interdependence of nations due to economic sophistication and burgeoning output. In addition, high levels of protection between trading blocs of countries are breaking down as barriers to trade are reduced. These changes have made it possible to increase the volume of trade between countries in agricultural products.

It became clear that overall levels of trade could be increased if trade barriers were reduced where there was agreement to do so, and that international trade should be governed by mutually agreed rules. The most active trading nations have been keen to find new markets for their goods and to reduce the barriers to free trade. These countries, however, have been reluctant to expose their own markets to foreign competition, especially unfair competition from subsidized or substandard goods.

At the international level, global liberalization was stimulated by the General Agreement on Tariffs and Trade (GATT) which was first implemented in 1948 as a mechanism to promote free and fair trade among member countries. Several rounds of negotiations of trade rules have occurred throughout the history of GATT. The Uruguay Round, which began in 1986, was the eighth of the GATT rounds. In April 1994, officials from more than 100 countries gathered in Marrakech, Morocco to sign the Uruguay Agreement and to confer the role of further trade reforms on the newly established WTO.

The reform process is by no means complete. Almost all countries have now committed themselves to the objectives associated with their membership of the WTO. (Six out of the 10 countries covered in this study are WTO members.) In order to meet these objectives, countries are obliged to further reform their existing internal economic and external trade policies.

The future of trade and agriculture in ECA is inextricably linked to the rate and direction of these reforms.

Globalization: the Process of Market Integration

The process of global integration of markets began in the mid-1800s with the rise in international trade driven by European colonialism. Market expansion was fuelled by rapidly increasing populations, urbanization, and new overseas markets seeking to trade low-cost raw commodities for processed goods. The ability to supply these developing markets with value-added products was made possible through new manufacturing processes based on steam, petroleum, and electrical technologies, combined with the increasing ability to communicate with trade partners through improved mail systems, and more latterly, through mediums such as radio and telephone. These new technologies were further supported with more competitive transportation systems based on a combination of canals, railways, and merchant shipping.

This first round of globalization was an extended period of rapid economic expansion for the colonial powers, a time when nations built empires and families amassed fortunes. The rewards of the system were highly skewed across countries and social classes and, despite the overall growth, the social pressures amongst classes and competing nations led to a backlash that plunged the world into 70 years of global insecurity. In direct conflict with the capitalist movement came the alternative doctrines of Marxism, communism, and fascism. The struggle between these opposing forces was played out in two world wars and the protracted period of the Cold War.

The Cold War, which dominated geopolitics between the 1940s and 1960s, shifted political weight towards military fortification, as the two remaining superpowers, the USA and the Soviet Union, fought a shadow war through proxy governments. Throughout the Cold War period, the superpowers and their allies provided military and financial support to "friendly" governments to enlarge their "sphere of influence". Foreign policy maintained support for many corrupt and socially damaging regimes, particularly in developing countries where much of the Cold War was conducted. Support to some unsavory regimes was justified on the basis that it would prevent the defection of allies and avoid the "domino effect" that would lead to global domination.

In the mid-1980s, the Cold War came to an end with the economic collapse of the Soviet empire, and the emergence of a new capitalist movement under the leadership of Reagan in the United States and Thatcher in the UK. This new political partnership promoted a highly liberalized form of capitalism in which government policy was led by the interests of the corporate private sector. This new regime introduced policies that radically reduced government intervention in the marketplace, privatized or excised inefficient state sectors, and removed power from labor unions. At the same time, many of the trade restrictions between countries were removed through a series of negotiated trade treaties, such as GATT and Maastricht, and a warming of relations between the Western powers and Asian countries.

The result of these political changes combined with major advances in technology, communication, and transportation spawned this second round of globalization. The end of the 20th century saw the advent of the digital age, which led to a paradigm shift in science and business management. The private sector integrated this digital technology into a vast range of new miniaturized products and applications and new market opportunities enabled industrialized nations to make a general shift away from heavy to lighter manufacturing industries. Communications were transformed by satellite and fiber optic systems. The seaports and railways of the 19th century were superseded by airports and more efficient road networks. Improvements in communications gave rise to mass access to information and ongoing liberalized legislation supported the development of new international finance mechanisms that was able to fund a more globally interactive private sector. The additive effect of these factors on trade was recently catalyzed with the advent of the Internet, which has, once again, dramatically increased our ability to share information, transact business, and make decisions on events as they occur around the world.

This latest round of globalization, which started in the 1960s and gained momentum in the 1980s, has led to a period of unprecedented economic growth for the developed nations. Developing countries, particularly those which were able to industrialize and more recently, liberalize their economies, have also experienced a period of sustained growth, which has led to significantly reduced levels of global poverty. The impact of globalization on the least developed countries (LDCs) has been less impressive.

The framework for growth in this latest round of globalized trade is based on building confidence in the investment sector. In contrast to the Cold War period when governments were rewarded by political allegiance to the superpowers, success in this new era is based on market competitiveness. Financial support is no longer based on the largesse of governments, but on the judgement of international finance houses. Investment decisions are made on the ability of companies, countries, and governments to develop a political and social environment, which favors private-sector enterprise.

The shift in investment power from governments to the finance sector has largely been achieved with the introduction of new legislation which has liberalized the finance sector, enabling free flow of capital in and out of countries and the development of new mechanisms for fund-raising. The power of the finance houses has been tremendously increased through "financial leveraging" mechanisms such as derivatives, hedging funds, and junk bonds, which enable brokers to build multimillion dollar loan packages from million dollar investments. The fact that most citizens in western countries are also engaged in personal pension and stock-based savings schemes has also provided a new source of capital to investors. Companies and governments have benefited as they have been able to extend credit or offload debt onto the public through shares and bonds and this mechanism has considerably increased their ability to raise capital. Whilst these financial instruments offer new opportunities to access funds, they also incur a more stringent performance mechanism as borrowers are now not simply accountable to the board of a bank, but to many hundreds of thousands of individuals, who now "own" a stake in the company, country, or regime.

The result of this liberalization of finance means that investment agencies are now under the scrutiny of millions of investors, who chart the progress of their savings on the stock markets. Consequently, investors need to constantly monitor world markets to identify the most favorable investment opportunities and avoid or offload the poor performers. The Internet has enabled many millions of new entrants into the investment decision-making process and the result of this increase in market monitoring has been to accelerate the dynamics of the global investment decision-making process. Clearly those companies and countries that offer the best returns are rewarded by this profit hungry group.

The habits and responses of this increasing number of market "watchers" are not always predictable. Decisions on where to invest and when to offload are not always based on sound analysis and the tendency for investors to follow the majority decision has earned this group of investors, the title of the "electronic herd". Given that the growth of nations is linked to trade through investment, then attracting the "electronic herd" is highly desirable. However, there are risks, as the herd is not loyal and whilst their presence means that funds can be accumulated rapidly, these same funds can also flow out equally rapidly if the herd stampedes.

The "electronic herd" is complimented, if not led by another major group of investors, the multi/transnationals, who make major long-term commitments/investments to countries, if the conditions for investment are favorable. The types of decisions made by the multinationals include, for example, the location of a new car plant, a microchip assembly center, or a textile factory. Attracting this type of investor can have major pay-offs for countries in terms of growth and labor opportunities, but the conditions for such investments are highly competitive and the transnationals expect very attractive terms and conditions.

Both types of investors seek locations where entrepreneurs can operate in an unfettered, risk-supportive environment where profits can be maximized. For long-term business growth, the investment houses are seeking framework conditions that adhere to banking laws, commercial law, contract law, business codes of conduct, independence of the central bank, property rights that encourage the entrepreneur, effective processes of judicial review, international accounting standards, regulatory oversight, laws against conflicts of interest, and a system in which officials and citizens are ready to implement these rules in a consistent manner. The economic policies of interest include those which favor industrialists and reduce power to labor unions, reduce government intervention in the marketplace, provide highly transparent, timely fiscal information, and have regulatory watchdogs that fight corruption and penalize those who are caught. The commercial viability of a country can also be measured by the strength of the banking/business sector in relation to its bond market, stock market, and treasury support programs. In terms of physical infrastructure, investors are attracted to governments that devolve power to the private sector and support infrastructural programs that support the business environment, such as upgrading transportation and communications systems, particularly digital services.

As the ability of measuring performance increases, investors have become more sophisticated in their use of social indicators and therefore, in addition to monitoring real-time rates of financial flows in and out of the country, new social indicators are being used, such

as the level of education of the workforce, and the degree to which people are able to communicate. With the advent of e-commerce, the latest market indicators are associated with the rates at which consumers become linked to the Internet.

Advocates of globalization argue that all of these socioeconomic measures are constructive and that the growth achieved through removing market barriers and integrating trade worldwide is benefiting all players, both rich and poor, and that globalization not only reduces poverty it also strengthens the cause of democracy. It is further argued that globalization is an impartial decision maker which provides governments and more importantly, the people who vote in governments, with the ability to make decisions for their economic growth. The notion that globalization is a force for the empowerment of people is termed "globalution" and this concept is based on the premise that if people within a country want reforms for greater economic growth, the people must advocate and vote for policies that support greater market liberalization and good governance.

To compete in this new economic environment, companies, governments, and countries need to be ever more efficient, ever more responsive to market signals, and ever more innovative in order to keep up with the demands and opportunities offered by the market. Clearly, those countries most likely to succeed are those which, have (i) most access to technology, (ii) are the innovators of technology, (iii) have the most highly educated labor force, (iv) have best access to risk capital, (v) are most able to communicate with partners and consumers, (vi) have the legal and regulatory framework to curb system abusers, and (vii) can provide a "Net speed" flow of all the required fiscal information to the investors. The best-adapted countries to the new environment at present are the industrialized countries, which are unabashedly gaining most from the system. These gains are not marginal, as lead countries take a lion's share of the profits and leave a diminishing amount for the rest of the players. To put this in perspective, 51 of the world's largest 100 economies are private sector and 359 corporations account for 40% of world trade.

The risks or negative aspects associated with globalization are also becoming more apparent and many least developed countries (LDCs), particularly the heavily indebted poor countries (HIPCs), are suffering declining terms of trade due to their inability to adjust to changing market signals within the liberalized global economy. Unlike industrialized sectors where factories can be closed until supply is more evenly balanced with demand, the economics of primary products produced by poor countries is different. These countries do not have alternative investment opportunities, or a skilled labor force to develop non-agricultural industries or services. They rely on cash-crop production for export revenue no matter how low prices fall. A combination of debt and dependence on raw commodities means that several countries are entering into an accelerating downward spiral, in which production needs to be increased to raise revenue to pay off debt, but increasing supply is driving down prices.

Over the past 20 years, the percent of ACP country trade with their traditional European partners has fallen from 7% to 3% and in 1998, LDCs accounted for only 0.38% of world trade. This level has decreased further of late as commodity prices have fallen to a 40-year low. The inability of governments or specific sectors to make necessary reforms can lead to

major shocks in their economic systems. At the investment level, the East Asian currency crisis, the Mexican peso problems, and the collapse of the Argentinean currency are all results of global investors and speculators overheating, inflated currency markets, or leaving en masse when events turn sour. In Africa, the continual decline in prices for commodity markets is directly linked to market liberalization and this is having a major negative effect on countries whose economies are dependent upon export commodities such as coffee, cocoa, cotton, tobacco, etc. This shock treatment is unlikely to change in the near future and it is more likely that economic crises will occur more frequently as the globalization process gains greater momentum.

Despite the lack of restraint in global market liberalization, for most people at this time, the rewards or trends are still sufficiently positive to support the process and there are several studies, which statistically prove that overall poverty reductions across the world have been faster in the past 30 years than at any other time. However, conditions are not static and the speed of change is accelerating. The common analogy is to compare the process of globalization to a high-speed train. This train has left the station, it is not waiting for latecomers, and it is gaining momentum.

Whilst there are many advocates of globalization, there are also an increasing number of critics to the process. The backlash to the first round of globalization was extreme with the rise of communism and fascism, which resulted in several wars during the 20th century. In this second round of globalization, more players and countries are involved and the key question in relation to stability is balance. Is the balance right between winners and losers and is the rate of growth great enough, and equitable enough, for the majority of people to accept the terms and conditions and also tolerate the shocks that will lead us towards a richer, but culturally more homogenized world?

The rise in protest to the current round of globalization has been manifest in increasingly violent demonstrations at WTO meetings. The "Battle at Seattle" was clearly an organized attempt by many groups of disaffected and angry people to make it clear to leaders in the international community that the headlong, unfettered pursuance of liberalized global capitalism has drawbacks, that people are already feeling marginalized, and that some will be prepared to make their grievance manifest through violent protest.

The arguments for and against globalization can be extreme, depending on the position taken. Whilst advocates argue that all the current studies prove that liberalization leads to increased economic growth and that the greater the degree of liberalization the greater the rewards, critics suggest that globalization is increasingly marginalizing the poor and that LDCs do not have the required skills or infrastructure to enter this new world order.

Two recent books provide clearly opposing views on the subject of globalization. The award winning book by Thomas Friedman entitled *The Lexus and the Olive Tree*, provides an overview of the process of globalization from a highly optimistic, entrepreneurial, United States based perspective. Friedman makes the case that globalization is a New World framework that we must all adjust to if we are to compete. According to Friedman, this process is not driven by any particular country or government and therefore is not something, which can be rallied against. The message is rather that globalization is a force for good,

for democracy, and growth. In order for companies, countries, and governments to benefit from the process, they should wholeheartedly take on the policies that support liberalization, that focus on competitiveness, free trade, and the call of the marketplace. Those most able to develop new, dynamic governance systems that support the private sector, reduce the role of state, and that attract investors will be rewarded by national growth. Avoiding these conditions will lead to economic oblivion.

In a recent book entitled *Against Global Apartheid,* Patrick Bond argues that the International Monetary Fund (IMF) and World Bank (WB) are increasing poverty and dependence in Africa. Bond suggests a combination of policies such as (i) the repeal of exchange controls leads to massive flights of capital, (ii) reductions in subsidies pushes millions of people below the poverty line, and (iii) lowered import tariffs causes widespread de-industrialization. Bonds also suggests that the current push to liberalize the public sector services such as health, education, and water through fee paying systems and lower budgetary investment is effectively disconnecting services from the people who can least afford them. The results of the structural adjustment policies, which claim to solve poverty, are rather leading to increasing misery and the unnecessary deaths of millions of people.

Where does the future lie?

There is both optimism and concern for the future of globalization. The process is real, it is currently the most powerful force for change in this decade and those who ignore the process do so at their own peril. At present there is no global regulatory system and although potentially desirable, the will is not yet sufficient to demand such an institution. The "balance" and "rate" of globalization is an issue which will become increasingly vocalized on the world agenda and if current rates of change are to be our yardstick, there will be increasing evidence of winners and losers as the process accelerates.

Some of the least desirable aspects of globalization that are relevant to Africa include the massive fall in terms of trade, dependence on donors through the Dutch disease, and the alternative of opting out of the globalization process and being cut off. Friedman suggests there is evidence that those countries that are not making efforts to join the global marketplace are taking destiny into their own hands. Globalists will not coerce rogue states into the process, but will have an economic wall built around them to effectively obscure their existence. Zimbabwe is currently being internationally walled out and the consequences of this happening rather than systems being established to support the LDCs is a subject of concern.

The rise of the super trade blocs such as the expanded European Union (EU) and North American Free Trade Agreement (NAFTA), is also a matter of concern for those countries, which are not associated and have no means of presenting themselves with a common agenda. African countries are in many respects prone to the more negative effects of these dimensions of globalization and all efforts should be made to seek ways to avoid the possibility of these aspects becoming a reality.

Some of the major arguments related to globalization were discussed in The Economist *(29 September 2001). The main debates are listed in Appendix 1.*

The Impact of Liberalization on African Agriculture

This section of the report offers an overview of the impact on African agriculture as economic liberalization policies associated with structural adjustment programs (SAPs) and membership of the WTO were adopted. The observations contained in this section have been distilled from reports of many studies in this field. Some of these studies covered all developing countries and others African countries, but many of the findings are applicable to the ten nations which are the subject of this report.

CDR findings

The Center for Development Research (CDR) has published detailed findings of the impact of the liberalization process on developing countries in Africa. This work was based on a review of many other studies in this field. The findings of these studies can be summarized as follows:

Farmgate prices and liberalization

The devaluation of local currencies represented one of the most important ingredients of SAPs. It was thought that devaluation would increase the income, measured in local currency, of farmers who exported their products. The reasoning was that, if export sales of the farmers' products were made, say, in dollars, those dollars would equate to a larger sum of local currency than before devaluation. (In addition, devaluation would make the country's exports more competitive in the world market as costs accrued in the local, devalued currency.)

Another SAP measure required governments to dismantle centralized, state-controlled commodity marketing boards. It was thought that the transfer of marketing activity to several companies in the private sector would allow competition in the market which would ensure higher sales prices to the farmer and lower wholesale and retail prices.

There is mixed evidence on the outcome of these measures. Some merchants failed to pass on to the farmer the increased local currency revenue from export sales. In some areas traders failed to compete for farmers' supplies and, instead, colluded with each other to keep farmgate prices down. There is evidence to show that farmers are paid more quickly than under the state monopoly system, however.

Deregulation has tended to put more export business in certain commodities in the hands of, often, a very few foreign-owned companies whereas local trading companies have evolved to be less specialized.

Liberalization has not had the effect of increasing quality generally. The old marketing boards monopolized trade and were, therefore, in a stronger position to ensure quality standards.

Processing

Typically, milling and hulling of grains and rice were undertaken by state-controlled enterprises prior to liberalization. The reform measures increased the number of privately owned millers with a better geographical spread throughout the country. This has had the effect of lowering costs but the smaller millers are constrained by lack of capital.

Coffee and cocoa generally receive very little processing in Africa apart from drying, washing, pulping, and curing. Some investment has been made in plant to roast coffee (Uganda), produce instant coffee (West Africa), and confectionery, but only for domestic outlets.

Almost all cotton is exported from sub-Saharan African countries as lint (cotton after ginning), which is cheaper to transport than more highly processed products. By 1997, Tanzania had 27 private ginneries supported by multilateral donors. Unfortunately, these small companies sourced their raw material from a wide catchment area and purchased different cultivars indiscriminately. This resulted in a supply of mixed seed from the ginnery and poor quality cotton grown from that seed.

Large-scale canning of fruit and vegetables in Africa is carried out almost exclusively in South Africa and Kenya. Some European supermarket chains, however, are promoting local African washing, packaging, bar-coding, and, sometimes, cutting and precooking of fruit and vegetables. This element of processing tends to be confined to larger farms and packinghouses, which can ensure better quality control. The added value is, therefore, captured by only a few companies, usually owned by foreigners or racial minorities.

Most foreign investment has gone to the processing of export crops because such investment can be financed more easily from bilateral and multilateral donors and by commercial loans and the products have a more assured market.

Input supply

Deregulation and devaluation have resulted in a lowering of the use of agricultural inputs. Prior to the implementation of liberalization measures, many African countries subsidized the supply of inputs in one way or another and, although this policy was often carried out inefficiently, it did at least ensure the uptake of these inputs by many small-scale farmers. Input supplies were regarded as an aspect of agricultural extension, but this system requires the distributing organization to have a monopoly of the marketing of produce in order for it to recover costs. Under this previous system, larger farmers received a disproportionately high share of the available supplies in some cases.

A variation of this policy has been tried again recently (1998/99) in Uganda where 34 private cotton buyers received a government loan to supply inputs, but without such assistance the private sector finds it difficult to obtain credit for supplies and to recover payment from recipients. Since the abolition of transport-equalization subsidies operated by several African governments the supply of inputs to remote areas has dwindled significantly.

Some organizations have stimulated the use of trust funds to finance input supplies. In these arrangements a revolving fund is made available by traders, local government, and the farmers themselves. The success of these schemes is closely linked to the quality and

accountability of the fund managers. They work best when adopted by pre-existing groups where social pressure ensures repayment.

Microcredit schemes have also been utilized for input supply. The cost of administrating these schemes often renders them subcommercial, however, and some donors apply a "no subsidy conditionality" to loans, which restricts their use for this purpose.

Seeds

Within SAPs, most governments decided to withdraw from the multiplication and distribution of seeds but retained a regulatory and, sometimes, a research role. Production and distribution of seeds has been taken over by large, multinational seed suppliers or by consortia of multinationals and local companies in many African countries. These new arrangements tend to favor the most profitable areas of the market where large quantities of a single variety of seeds can be supplied to larger farms. Seed supply has, therefore, become more efficient at the wholesale level, but not at the level of the small-scale farm.

Supplying seeds to small-scale farmers is fraught with difficulties. Small quantities of different varieties are required to meet the individual farmer's needs. This involves complicated inventory problems, considerable transport costs, and wastage. There are few suppliers of the less profitable seed types of nonhybrid maize, millet, pulses, sorghum, oilseed, and potato.

Prices for seeds have tripled since liberalization. There are now many more distributors, but this has made it more difficult to control quality.

In Tanzania, DANIDA (Danish International Development Agency) is supporting 100 village-based seed production units to try to overcome these problems.

Research and extension

In the years since liberalization, centralized extension and research has become increasingly donor dependent but overall funding has fallen and many organizations are seriously underfunded. Most donor funding programs are devoted to training, technical assistance, and capital investment and there is less money available to cover operational funds for research.

Many research and extension services have been criticized for poor management and a lack of relevance of their work. Many are overstaffed, but offer such poor wages that staff are tempted to use their position for personal gain. There are many instances of a poor interface between research, extension, and the private sector, i.e., needs of farmers, traders, and processors.

In general, there is little agreement about where the greater public interest in these services should end and where the private-sector interest should begin. Many services have undergone a "core functions analysis" funded by the World Bank Agricultural Services and Management Project but these have had a limited effect. As farmers are under increasing pressure to increase marketed production they need increasingly diverse, dynamic, and appropriate technical assistance rather than "one-package-fits-all" solutions.

Agricultural infrastructure

Agricultural infrastructure includes airport facilities, roads, railways, ports, water, electricity, telecommunications, and postharvest facilities.

Funding for infrastructure provision is not seen to be the main problem. The bottleneck most commonly identified is poor administration and the reluctance of governments to invest in rural areas especially in maintenance and operations. ECA does not have an elaborate railway network, but those services that do exist are poorly run and lack investment. The trucking industry has grown but the lack of adequate rural transport systems is a major constraint to agricultural development. Traders are often the only owners of trucks in these areas, which strengthens their market power over farmers.

Farm size: the case for a mix of commercial and smallholder farms

Many production specialists argue that if the ECA is to compete successfully in world agricultural markets, the establishment of a greater number of commercial farms must be encouraged. The argument in favor of such development needs to be balanced against the difficulties of establishing such farms and any negative impact that a growing commercial component might have on the rest of the agricultural sector and any disruption of rural and urban society.

Commercial farms represent a significant component of the industry in Kenya. Such farms are able to supply high quality products for onward processing and for export. In most other ECA countries, commercial farming is usually confined to the production of cash crops such as sugar, cotton, and tea. Although there have been examples associated with large investments that subsequently failed, it is argued that well-run, large commercial farms can coexist with small farmers and can provide a source of technology and ideas to small-scale farmers. The possibility of larger farmers working with outgrowers is also attractive in that this process provides access to a market that is generally unavailable to resource-poor farmers and being involved in this market chain automatically requires farmers to meet modern trading standards that sales into local markets cannot support.

All inward investment has a multiplier effect on the economy as wages earned by employees from new enterprises are spent on domestic goods and services and local enterprise supply inputs. In addition, new innovations in agriculture allow local people to acquire skills that can be used to start other, similar new enterprises. Growth in agriculture is particularly effective in reducing poverty due to its impact on the rural, nonagricultural, small-scale sector. Farmers spend a substantial portion of incremental income on locally produced, nonfarm goods and services and this wealth sharing stimulates enterprise in other nonagricultural sectors.

It has proved difficult to attract foreign investment into small-scale food production in Africa, but increased investment in cash-crop production should have the effect of increasing exports and benefiting the economy as a whole.

The difficulties of providing the conditions for successful commercial farming should not be underestimated, however. Plant and machinery as well as agricultural chemicals need to be imported. Land and water supplies need to be made available and, in most cases, foreign personnel will be needed to run the farms and train local workers.

As has been said elsewhere in this report, such development is unlikely to occur without significant social implications. Large, commercial farms usually require less labor per hectare than the number of people needed to work the same area of land using traditional, small-scale methods. Furthermore, the large tracts of land needed are not likely to be available without denying the land to those already working it.

In planning for this kind of agricultural development, government and development agencies need to accumulate the necessary evidence to enable them to accurately estimate the benefits and disadvantages of encouraging commercial scale agriculture and to estimate the pace at which such enterprises need to be established for optimum results. In this work, agencies need to be able to estimate benefits in terms of increased export revenue, multiplier effects, and the strengthening of the agricultural skill pool.

In addition, they need to estimate the likely implications of expenditure on imports of equipment from abroad and the likely use in domestic investment of profits and tax revenue from the enterprise. More importantly, they need to understand the impact on employment and the acquisition of land and water. If the trend towards commercialization leads to a significant acceleration in urbanization, planning must be made to provide jobs, services, and infrastructure to meet the needs of the displaced rural population.

Without such a wide-ranging study it would be difficult for governments and agricultural development agencies to arrive at a set of policy decisions, which will encourage commercial agricultural development at a rate that can be successfully accommodated within the economy of the country without causing serious and, ultimately, more expensive difficulties. The study should also enable these agencies to develop policies, which strike the right balance between encouraging commercial farm development and encouraging collective farming activities among traditional, small-scale producers.

CTA/IITA findings

Since 1996, the Technical Center for Agricultural and Rural Cooperation (CTA) and the International Institute of Tropical Agriculture (IITA) have conducted a number of studies on postliberalization changes in agricultural marketing infrastructure.

Agricultural marketing infrastructure

Marketing infrastructure includes the provision of market information, market research, communication systems, fixed-site market places, credit, and the proper regulation of a legal framework outlawing monopolies, oligopolies, cartels, and trading collusion.

State-controlled marketing boards prior to liberalization monopolized the purchasing of a number of commodities from farmers. The boards controlled prices, held stocks, and distributed the products at home and abroad.

Markets in perishable food products, such as fruit and vegetables, were not usually controlled by the boards. In Africa, the main consumers of agricultural goods are farmers and their families, but marketing boards were only interested in surplus production. In addition, the boards were not involved in barter arrangements and local sales at the village level although prices at that level were greatly influenced by the boards' price setting.

Although most marketing boards have been dismantled in the liberalization process, several still exist in some African countries and deal especially with the most important export commodities and with strategically important food products. Other boards have changed their function and deal typically with the regulation of the market.

The function of the dismantled marketing boards has been taken over by many layers of private traders of different sizes and function. It was hoped that transparent and competitive markets would rapidly evolve. In many countries, however, traders have been slow to embrace the competitive system and collude with each other to fix both farmgate and retail prices. The forces of competition manifest themselves mostly at the wholesale level.

Smaller scale traders face many problems including transport difficulties in rural areas, poor and mixed quality supplies in often small quantities, lack of credit, lack of up-to-date market information, arbitrary road tolls, variable quantity units, and poor facilities at fixed-site market places, such as storage and drying floors. In these conditions it is not perhaps surprising that significant quantities of products are wasted and that traders collude with each other especially in areas where farmers are thinly dispersed over wide areas.

Many farmers are in an even more difficult position. They often have no transport, no storage facilities, no credit, and no means to discover the prevailing market price for their goods. They are in a weak bargaining position compared with the trader.

Farmers' problems have been addressed in some areas by adopting collective activity especially in raising credit, storage, transport, sorting, grading, and marketing. In this way, traditional, small-scale farms can gain economies of scale and legal status enabling them to compete with commercial farms.

The most successful farmers' associations have received support from development agencies in the form of management and business training, advice on the mechanisms of democratic decision-making, the pump-priming of credit unions and, in some cases, the provision of equipment such as computers and communication systems.

The record of credit provision for small-scale agriculture is very poor. Farmers often have no collateral and no experience of keeping proper records. Many of those banks that have received funding from donors to provide small-scale agricultural credit have misappropriated funds and have gone into liquidation taking farmers' savings with them. Poor, isolated, atomized farmers have virtually no chance of obtaining credit except on usurious terms from traders. The formation of some form of legal entity representing some farmers has enabled them to obtain credit, which can be used to hold back stocks when traders are unwilling to pay prevailing market prices thus strengthening farmers' bargaining power.

The history of the provision of market information to farmers in the postliberalization period has been equally poor. It was recognized at the early stages of the reform process that a free market in agricultural goods could not function successfully unless all actors in the market were properly informed about price movements and market conditions. Most African governments, supported by donors, established market information services disseminating information by state-owned radio broadcasts and through the printed media. Almost all these services failed to deliver appropriate and timely market information to ordinary farmers, traders, and processors, but sometimes provided useful information to

government agencies and very large actors in the private sector. Many donors have since withdrawn support.

The advent of the Internet, mobile phone systems, and local FM radio stations broadcasting in the local vernacular has now made it possible to adopt new models for locally based, participatory, timely, demand-led, and cost-effective market information services, which can be linked to national, regional, and international information networks.

FAO findings

In early 2000, The UN Food and Agriculture Organization (FAO) published reports of case studies carried out to assess the effects of the implementation of the Uruguay Round (UR, now WTO) reforms, as framed by the WTO Agreement on Agriculture (AoA) on the agricultural sectors of developing countries. The FAO pointed out that the period since the adoption of reforms may have been too short to assess the long-term impact on the economies of the countries covered by the study. However, the FAO studies arrived at the following conclusions:

- Of the 15 developing countries studied (Botswana, Brazil, Egypt, Fiji, Guyana, India, Jamaica, Kenya, Morocco, Pakistan, Peru, Senegal, Sri Lanka, Tanzania, and Thailand), none needed to reformulate their domestic policies in order to comply with the AoA. For most of them the reform process were just a continuation of earlier reforms they had adopted under structural adjustment programs, regional agreements, and unilateral reform programs.
- The countries considered that Special and Differential Treatment measures (allowing developing countries to provide input and investment subsidies) were very useful.
- None of the countries had any difficulty living with a "tariff only" regime (conversion of nontariff barriers to tariff only barriers). But again, most of these conversions had taken place under other reform programs.
- The study showed that bound tariffs were high (those posted to WTO as a ceiling tariff rate), but those actually applied were much lower, usually due to commitments to international financial institutions or fear of damaging trade relations.
- Permissible import tariffs were found to be useful, however, especially when abrupt changes occurred in domestic production.
- There were very few examples of increased exports in the post-UR period, neither in volume or diversification. Some countries considered, however, that the prospects for exporting nontraditional products, especially fruit and vegetables, had improved. On these products, countries were concerned about the difficulties of complying with WTO sanitary and phytosanitary standards (SPS).
- There were few cases of concrete technical or financial assistance to improve quality standards as promised in the SPS agreements.
- Food imports were reported to be rising rapidly in most of the case studies. Some developing countries reported surges in imports, especially of meat and dairy products with detrimental effects on competing domestic sectors. Guyana's food and live

animal imports almost doubled between 1994 and 1998. Small island states were particularly badly affected.

- One common observation was the asymmetry between the growth of food imports and the growth of agricultural exports.
- Although most countries covered by the case studies expected to receive benefits from the "Decision" (on measures concerning the possible negative effects of the reform program on least developed and net food-importing developing countries), there were no reports of any assistance being received.
- Countries were concerned with the general trend towards the concentration of farms. While this led to increased productivity and competitiveness, in the virtual absence of social safety nets, the process also marginalized small producers and added to unemployment and poverty.
- Similarly, most of the studies identified lack of export competitiveness. As examples, the rice and sugar sectors in Senegal were facing difficulties in coping with import competition despite a substantive devaluation in 1994 and Botswana suffered competition from beef imports often coming from subsidized EU exports.
- ACP countries that export bananas were concerned about the impact of WTO rulings on their preferential access to the EU market.
- The level of awareness among officials of the countries studied had improved as a result of participation in seminars, workshops, and training activities organized by international agencies. However, more was required, notably in preparing WTO notifications and related databases, analyzing sequences on both policies and the real economy, re-instrumentation of policy measures, upgrading SPS standards, monitoring of developments at the WTO and analyzing them, and in trade negotiations.

Other aspects of the impact of liberalization

The liberalization process has benefited some aspects of the economies of developing countries and some sectors of agriculture. The lowering of tariff barriers by consuming countries has offered more opportunities to exporters in developing countries. The exposure of agricultural production to foreign competition has forced some producers to become more efficient. The dismantling of government-controlled marketing boards has stimulated the evolution of the private-sector trading networks needed in a modern economy. It is likely that, in the long term, these changes will encourage inward investment to improve the agricultural infrastructure and increase production of added-value goods. At present, however, most developing countries have yet to see any tangible evidence of improvement. The problems faced by these countries can be summarized as follows:

- Developing countries have been encouraged to increase production for export. This has resulted in overproduction of many commodities and, consequently, a fall in the price of those products—in many cases, to historic lows.
- Isolated, rural communities (which make up a significant proportion of the population of many ACP countries) have been adversely affected by these

changes. Farmers cannot rely on guaranteed, fixed prices for their goods; extension services and the supply of subsidized inputs have been curtailed; access to credit is very limited; free education and health services are no longer available; and farmers find themselves in a weak bargaining position with private-sector traders. In addition, the trend towards the establishment of larger, commercial farms has tended to marginalize traditional, small-scale farmers. This trend threatens the integrity of cultural life in the countryside and the rural economy.

- The local markets in agricultural products are undermined by cheaper imports, including heavily subsidized imports from developed countries.
- Many countries lack the skills and resources to produce commodities with high enough quality standards to compete in the world market.
- Imports of cheaper, processed food products have reduced the possibility of manufacturing those products in the local market.
- Stocks of surplus food commodities in developing countries have fallen. This has had the effect of reducing supplies of food-aid to net-food-importing countries, obliging them to purchase more food imports on the open market.

All these issues have been raised by developing countries in various forums and have informed their policies in negotiations in bilateral and multilateral talks on trade and development. Developing countries are, however, faced with an additional set of problems in these negotiations as they often lack the apparatus needed to negotiate successfully in these talks.

Sanitary and phytosanitary measures

The trend towards a liberalized global market has brought with it the need to institute international standards in goods traded. This applies especially to food products.

Almost all agricultural products consumed in developing countries are covered by sanitary and phytosanitary (SPS) regulations. These are necessary for consumer protection and the protection of plants and animals in the importing country from disease.

These measures have an important impact on the ability of developing countries to export products to developed (and developing) country markets. Furthermore, with the pressure for agricultural trade liberalization increasing, there are concerns that SPS measures could be used as protectionist measures.

The quality standards demanded by developed countries are high and, for some developing countries, difficult to achieve. And what's more, quality standards get higher as the degree of processing is increased towards a fully manufactured product produced for direct consumption.

Overcoming the difficulties of producing goods, which comply with the quality standards of consuming countries, almost certainly represents the most important challenge for developing countries in a liberalized world. It is far more important, for instance, than comparatively minor (and falling) barriers to trade represented by import tariffs.

The Sanitary and Phytosanitary Agreement is designed to protect animal and plant life or health arising from the spread of pests and diseases and to protect human and animal life from disease and toxins. The SPS Agreement is closely linked to the WTO Agreement on Agriculture (AoA) although they are separate agreements. The AoA endorses the SPS Agreement by stating that "…the SPS Agreement should be given effect by all members".

Under the Agreement:

- Importers are permitted to take measures based on scientific principles to safeguard human, animal, and plant life.
- Internationally agreed standards must be adopted which can only be made stricter on scientific evidence.
- Measures adopted should be transparent—changes must be made known promptly and enquiry points must be set up to provide documents and answer questions to allow exporting countries sufficient time to adapt.
- Special and differential treatment must be afforded to developing countries that can request a longer time to comply.

Industrialized countries have established systems for analyzing food products and controlling sources of contamination. The systems for carrying out this work in most developing countries are not as fully established or as rigorous. Nevertheless, the SPS Agreement stipulates that all member countries are subject to the conditions of the Agreement.

Developing countries were given an additional two years (up until 1997) to comply with all the provisions of the Agreement except those associated with transparency. Least developed countries were permitted an additional five years (until 2000) to comply with the Agreement in its entirety.

The WTO's chosen vehicle for setting safety standards on food is the Codex Alimentarius Commission, a joint UN World Health Organization/FAO body set up in 1962. This body sets standards on limits of additives, chemicals, pesticides, and other contaminants. Representatives at this body include 140 UN member countries (only 7% from Africa). Developing countries are largely absent from committees but representatives of transnational corporations such as Nestlé, Monsanto, United Brands, and Coca-Cola outnumber the representatives of many countries. Its regulations are extremely technical and complicated. Existing codes take up 28 volumes. Its texts on fisheries run to 400 pages. The organization chosen to oversee standards on animal health is the International Office of Epizootics.

All governments are eligible to participate in the various processes, which constitute the SPS Agreement. There is, however, evidence of low participation by developing countries in areas such as notification, adoption of international standards, and attendance at meetings.

The SPS Agreement and ECA countries

Most ECA countries do not have sufficient resources and expertise to meet all the exacting standards required by customers in industrialized countries for food products. These

standards not only apply to the safety of the products but also to its appearance, packaging, and labeling of contents.

Meeting these standards requires a long list of systems including quality control at the farm level and in processing, laboratory facilities, access to clean inputs such as water and packaging materials, controlled temperature storage facilities, and testing facilities and certification systems. If customers in developing countries are not confident about the standards of any of these facilities, they are likely to demand additional testing at the port of discharge and may reject any defective goods. This adds significant costs and uncertainty to any transaction.

Developing countries are entitled to special consideration from importing countries for the time they may take to develop control systems. Assistance with the difficulties of setting up and administering these systems is also available from a number of international development organizations, such as the World Bank, the Commonwealth Secretariat, overseas development departments of governments of industrialized countries, and NGOs.

The most comprehensive program of assistance is offered by the UN Food and Agricultural Organization (FAO). Among the services offered by the FAO are:

- strengthening laboratory analysis and food inspection capabilities
- providing training in all aspects of food control
- providing advice, information, and documents on a wide range of related subjects
- publishing manuals on food quality control
- providing assistance in the strengthening of administrative structures.

Although this assistance may go a long way to help developing countries meet their obligations under the Agreement, many counties may still lack the necessary resources and experienced personnel to run these systems effectively and to fully participate in the functions of the Agreement.

Links between the liberalization process and the "Adding-up Problem"

Observers have identified a direct link between global and national liberalization policies and the oversupply of primary products, which has caused the dramatic fall in the value of agricultural exports from developing countries. The recent history of the coffee market serves as an illustration of this linkage.

The coffee market as an illustration of the problems of oversupply

The recent history of the coffee market has been used as an illustration of how oversupply has reduced prices of many primary commodities produced in developing countries. In 1980, the price of green arabica coffee beans on the New York market traded at US cents 150/lb. By November 2001, the price had dropped to 46 cents. Throughout this period inflation has, of course, reduced the value of the dollar. In terms of the value of goods that can be bought on the international market with their revenue from coffee sales, producers now receive only about one seventh of the price they received twenty years ago. At the same time, retail prices of products made from coffee (roasted and instant coffee) have increased

substantially over the same period. A 200 g jar of instant coffee, which was retailing at £2 in a London supermarket now costs £3.99. In London or New York a cup of coffee now costs about $3—the weekly income for many coffee farmers in Africa.

This phenomenon also applies to many other primary commodities produced by developing countries—cocoa, sugar, cotton, gold, copper, maize, spices, hard fibers, etc.

Given that these commodities represent the bulk of exports from developing countries, it is clear that this phenomenon must represent a major cause of poverty in these countries.

It would be wrong to suggest that all the growing difference between raw material and retail prices has accumulated as profit to the large multinational companies who dominate the trading and processing of coffee, although this is certainly a factor. Most of the difference is taken up with the increasing costs of advertising, branding, packaging, and retailing, which appeals to increasingly discerning customers in developed countries. All these components of the retail price are accrued in the consuming countries, however.

So, what are the reasons for the fall in the price of coffee beans? Observers have identified three main causes:

1. Increased production by a few coffee-producing countries. Vietnam increased production from 4 million bags to 11 million bags between 1995 and 2000. Brazil increased production from 15 million bags to 32 million in the same period.

2. Devaluation of currencies by developing countries. SAPs, encouraged by the World Bank and IMF and adopted by most developing countries, included the requirement to devalue the local currency. This measure was designed to make exports more competitive and, therefore, boost the volume of exports.

3. The withdrawal of the economic clauses of the International Coffee Agreement (ICA). In 1989, consuming countries led by the US and UK decided to end funding to support the coffee price within the retention scheme of the International Coffee Organization (ICO). Their stated reasons for doing this was to prevent countries becoming dependent on raw-material production based on artificially high prices. It should be said, however, that consuming countries have saved considerable sums of money by having access to coffee at very low prices.

All three of these reasons could be attributed to the adoption of internal and international market liberalization policies. The intention of these policies was to boost developing country exports, but since the same inducements were given to almost all coffee-producing countries, the net result has been chronic overproduction. The average annual supply of coffee increased by 3.6% over the last 5 years— consumption increased by only 1.5%. Stocks doubled between 1997 and 2000. The policies adapted to boost coffee production are a clear example of the "adding-up problem". More and more is produced at a lower and lower price.

This is not to say that coffee is no longer in such great demand. The 1.5% annual rate of growth in demand would be thought of as extremely positive in many industries. In fact, it was calculated some years ago by Christian Aid that the demand for coffee

would not be seriously negatively affected if the price of green coffee beans were as high as US$5/lb—ten times the current level. This is because the raw coffee price is such a small component of the retail coffee price, compared with the cost of advertising, branding, packaging, etc.

The accelerating difference between the raw and retail price suggests an obvious strategy. Coffee-producing countries should brand and package their own coffee and sell it directly to Western supermarkets. Such a strategy would be easier said than done, however. Firstly, developing countries would face the problem of accelerating tariffs. Many processed products are protected by a high tariff wall around the main consuming markets. With the advent of the Everything but Arms (EBA) initiative and similar initiatives by other developed countries, LDCs may be able to attract investment to do this. Such opportunities are not available to developing countries however.

In addition to the tariff wall problem, developing countries would also have to compete with their own customers (in developed countries) who are themselves major exporters of processed coffee products, selling under established brands such as Nestlé and Maxwell House. The US imports about 24.5 million bags of coffee beans each year but exports the equivalent of 2.4 million bags half of which were in the form of roasted or soluble coffee. The EU imported 46 million bags—and re-exported the equivalent of 13 million (half-roasted or soluble). So what solutions to this problem have been proposed?

In 1993, the Association of Coffee-Producing Countries (ACPC) resurrected another retention scheme without the assistance of coffee-consuming countries this time. Association members were obliged to keep 20% of their potential exports off the market. Unfortunately, the scheme collapsed in early 2001. The ACPC has offered several reasons for the collapse—lack of funds, failure to attract all producers as members, cheating, etc. Mexico faced a legal challenge if it took part under its NAFTA agreement.

Other ways of addressing the problem have been proposed. There have been several of what could be called conventional approaches, in that they rely on the market to provide an answer.

- Elimination of tariff escalation (higher import duties imposed by importers on processed products). This measure might allow coffee bean producers to attract investment to process coffee into a higher value product.
- Promotion of consumption in new markets, especially Russia and China.
- Use of hedging techniques offered by brokers in futures markets to reduce the risk factor between high and low prices within a year.
- Improving the quality of the beans.
- Finding niche markets for coffee beans or selling to fair trade organizations that pay up to 20% more for a tiny percentage of world output.

None of these proposals would do anything to address the problem of overproduction or historically low prices. Some would promote even more competition between producers. The central problem with the coffee market, from the producers' point of view, is that there is simply too much coffee production.

The orthodox economic view is that the market should simply be allowed to determine output, consumption, and price. In fact, some multilateral agencies are encouraging even more coffee production in some countries. The assumption is that, as the price falls, the less efficient producers will be forced to stop production. In the case of coffee, however, the reverse is likely to happen. Efficient coffee plantations—often owned by large companies—might indeed find something better to do with their investment if they cannot reduce production costs further. Most small-scale growers (representing 80% of production), however, have no choice but to continue coffee production however low the price falls. The cost of education and health care are no longer heavily subsidized by many governments since structural adjustment policies were adopted and farmers must earn cash from whatever they know how to do best.

After the collapse of the ACPC's retention scheme in 2001, the Chairman of the ACPC wrote to the President of World Bank to ask for assistance in the crisis, but it was thought unlikely that the World Bank would offer a solution involving global market management. Stock retention schemes are innately unstable and international coffee traders know this. Coffee cannot be stored forever. The sentiment of the market will not be changed by another attempt at such a strategy. Production capacity would have to be reduced as fairly as possible. This may not be an insurmountable problem if farmers understood that they could double their income with a 10% cut in production freeing land to grow food. Producing countries would need financial and technical assistance with such a task, however. They would also need to make binding agreements with each other and to promote the full and active participation of associations of coffee farmers.

Capacity reduction schemes are allowed under WTO rules under "Blue box" and "Green box" provisions. In Europe, for instance, farmers are paid by their governments to "set-aside" land from production with the objective of providing habitat for wild life and for reducing production.

Poverty is widespread among the 25 million people in the world who produce coffee. At present, many of these people are supported by aid programs. This help would not be necessary if they were able to earn a living wage by producing a product for which there is a growing demand.

International Trade Agreements

Some of the problems faced by African countries are perceived by many observers to be caused by the liberalization process itself. For this reason African governments are making representations in international forums to clarify, add to, modify and, in some cases, reverse agreements made on international trade in agricultural products.

The most important of these forums is the WTO. The WTO Agreement on Agriculture (AoA) is especially important as it applies to African countries' most important exports.

The WTO Agreement on Agriculture

Note: The Democratic Republic of Congo, Eritrea, Ethiopia, and Sudan are not yet WTO members. The AoA, which came into effect on 1 July 1995, covers agricultural produce, but excludes fish and fish products and forest products (e.g., timber). The implementation period of the AoA was six years (commencing 1 Jaunary 1995) for developed countries and ten years for developing countries. The three main objectives of the Agreement are to:

1. Increase market access.
2. Increase export competition.
3. Reduce domestic support.

The assumption behind these objectives is that if protective measures, such as subsidies, tariffs, and quotas, which distort the international market for agricultural products are removed, production will become more efficient and producers with a competitive advantage will gain the highest market share. In theory, many African countries have a competitive advantage in the production of certain agricultural products. Wages are low and a variety of soils, topography, and climatic conditions favor the production of many crops. Competitive production, however, also requires investment, know-how, and efficient transport systems. And, except for some specialist products, only larger production units offer the economy of scale needed to compete successfully.

Significant barriers to free trade will still exist even after the implementation of the current WTO commitments. Member countries have, however, committed themselves to a further erosion of these barriers and a new round of negotiations on the Agricultural Agreement began in 2000. The Agreement commits members to convert nontariff import restrictions (quotas, variable levies, etc.) on agricultural produce into equivalent tariff barriers (i.e., the new tariff would have the same effect of restricting imports as the old nontariff barrier). These tariffs cannot be increased.

Developed country members are committed to:

- Reduce import tariffs over the period of the Agreement by an average 36% and a minimum of 15% for any one imported category of product.
- Reduce outlays on export subsidies by 36%.

- Reduce the volume of subsidized exports by 21%.
- Reduce domestic farm support by 20% except for "Green box" measures (see below).
- Allow a minimum access (imports) of the equivalent of 5% of domestic consumption on certain categories of product. This does not commit a country to actually importing these quantities, but simply provides the opportunity for such quantities to be imported.

Developing country members are committed to:

- Reduce import tariffs over the period of the Agreement by an average 24% and a minimum of 10% for any one imported category of product.
- Reduce outlays on export subsidies by 24%.
- Reduce the volume of subsidized exports by 14%.
- Reduce domestic farm support by 13.3% except for "Green box" measures.
- Allow a minimum access (imports) of 1% rising to 4% by 2004 of domestic consumption on certain categories of product.

LDC members are committed to bind (fix) their import tariff rates and provide minimum access quotas, but are exempt from any reduction commitments. LDCs and developing countries with a per capita income of less than $1000 are exempt from eliminating export subsidies, but import substitution subsidies must be eliminated by 2002.

Exceptions

The Agreement contains many qualifications and exceptions.

On tariffs

- in some circumstances countries are able to use the Special Safeguard Provision of the Agreement. This provision is designed to protect the products that were subject to tariffs from surges in imports or large price falls when countries are allowed to impose additional duties.
- Some countries are covered by a Special Treatment Clause (often known as the Rice Clause) covering specific commodities. This clause only applies to South Korea, the Philippines, and Japan who wished to protect the farmers of their staple food (rice), and Israel who wished to protect certain livestock products.

On domestic support

Domestic support takes the form of monetary sums given by governments to farmers to subsidize production of specific products or more general expenditure on infrastructure, research, etc.

- The Agreement recognizes some categories of support to be "nontrade distorting" and some that are not, or minimally trade distorting.

These are:

"Green box" supports that are deemed to be minimally trade distorting and are not subject to reduction commitments. They cover research, extension, food security stocks, disaster payments, antinarcotic incentives, and structural adjustment programs. Green box measures

can be challenged by countries who can prove injury to their own economies after the Due Restraint Provision (known as the Peace Clause) of the Agreement lapses in 2003.

"Blue box" supports are a special category created to accommodate the EU's and US' system of augmenting farmers' income for reducing production or only maintaining levels of production at an agreed level. They include the EU's "set aside" programs and US deficiency payments. These are also not subject to reduction under the terms of the Agreement.

"Amber box" supports are payments made directly to farmers for each unit of output and, as they are deemed to be trade distorting, they are subject to reduction.

***De minimis* clause** allows countries to maintain a certain minimum level of support to farmers. In the case of developed countries this can be up to 5% of the value of production for individual products and 5% of total agricultural production. For developing countries, support can be given up to a level amounting to 10% of the value of total agricultural output.

Special and differential treatment allows developing countries to provide input and investment subsidies.

On export subsidies

Export subsidies are payments made by governments to producers or exporters to enable them to sell goods abroad at cheaper levels than they could otherwise afford. When such sales of manufactured goods are made at below their cost price, it is known as "dumping" and the practice is prohibited. Agricultural products are regularly sold abroad (almost exclusively by industrialized countries) below cost price, but it is neither described in the Agreement as dumping nor prohibited.

The practice is, of course, beneficial to consumers of such products but cheap, subsidized imports compete with domestically produced products and drive prices down for domestic producers. EU and US export subsidies take several forms including export credit. Both are compatible with the WTO AoA, but are again subject to the agreed reductions.

As WTO members agreed to continue the process of support reduction beyond this period, a review of the Agreement began in 2000.

Comments on the WTO AoA

An overall objective of the Agreement is to provide a more "level playing field" in world trade in agricultural products. It should be understood, however, that at this stage of the liberalization process, industrialized countries have an added advantage as they have traditionally provided high subsidies and are only called upon to reduce them. (EU and US subsidize agriculture at rates between 40% and 50% of its value). Developing countries have provided little or no subsidies but cannot introduce them or increase them beyond the 10% *de minimis* levels. It could also be said that domestic subsidies provided to farmers in industrialized countries under "production limiting programs" are trade distorting as production would not be profitable without them. Only 25 out of 132 members of the WTO are allowed to have export subsidies. Three exporting countries account for 93% of export subsidies on wheat, two for 80% on beef, and two for 94% on butter.

ACP/EU agreements

[*All ten countries, which are the subject of this report, are ACP members*]

The Lomé Convention

The Lomé Convention expired in February 2000 after having served as a basic framework for economic cooperation between the EU and ACP countries for two decades. The convention gave ACP countries preferential access to the EU market for a wide range of goods including many agricultural products.

Of greatest importance to ACP countries were the four Commodity Protocols attached to the Convention covering bananas and sugar and, to a lesser extent, beef/veal and rum. Under these protocols, ACP producers were able to sell a fixed quota of these commodities in the EU at the same price enjoyed by EU producers. These prices were, and are, considerably higher than world market prices.

Most other goods entered the EU under the General System of Preferences (GSP). The GSP is a trading regime, which governs commercial relations between the EU and all but the most highly developed industrial countries. Under this system these countries are treated equally as far as import tariffs into the EU are concerned. Almost all tropical products and raw materials enter the EU duty free. Most manufactured products are subject to import tariffs. Processed agricultural products, such as instant coffee and confectionery, carry import duty rates, which tend to increase according to the amount of processing involved (escalating tariffs). On certain other goods including some fish products, tobacco, fruit and vegetables, and cut flowers, ACP countries enjoyed increased EU access under the Lomé Convention in the form of tariff levels that were lower than GSP rates.

The Cotonou Agreement

Negotiations for a new agreement between the EU and ACP countries were finalized in February 2000. The new arrangement, known as the Cotonou Agreement, replaced the Lomé Convention. The parties to the Lomé Convention were obliged to negotiate a new agreement as many of the Convention's provisions were incompatible with WTO rules. The Cotonou Agreement calls for reforms to be made over the next seven years, which will bring all its trade relationships into line with WTO regulations. There is no clear agreement on how this can be accomplished, but the EU has agreed that the new arrangements will give equivalent benefits enjoyed by ACP countries under the Lomé Convention.

In the meantime, no significant changes have been made to Lomé provisions for preferential import tariffs for ACP goods. In addition, since the signing of the Cotonou Agreement, the EU has made special provisions for LDCs (see "Everything But Arms" below). The Lomé protocols on sugar and beef remain, but the arrangements under the banana protocol, which were anyway amended before the expiry of Lomé, have been substantially altered.

Europe still represents the most important market by far for ECA exports. All trade agreements between ECA countries and the EU are subordinate to WTO rules, however. Certain elements of existing and future trade agreements between the EU and African countries may be found, by the parties to such agreements, to be unsatisfactory for this reason. It is important to remember, therefore, that in order to modify these unsatisfactory elements, it would first be necessary to change WTO rules.

Making the Cotonou Agreement compatible with WTO rules

Members of the WTO have agreed that, in general, no member should differentiate against another in their trade relationships. The WTO allows groups of countries to form trading agreements with each other under certain conditions. Developed countries are permitted to offer preferential trade conditions to developing countries (DCs) and to LDCs and net food importing developing countries (NFIDCs). In addition, members can make separate agreements with groups of countries in a specific geographical region, such as the Southern African Development Community (SADC), the North American Free Trade Association (NAFTA), and the EU.

It is quite clear, however, that ACP countries do not constitute a region and, although 50 of the 71 countries are either LDCs or NFIDCs, they do not all come within these categories. No single criteria can be used to define these countries into a group, which would satisfy WTO rules as an exception. It would be very expensive for the EU and thus politically impossible, for instance, for the EU to extend ACP preferences to all medium-income and poor states.

At its Doha Ministerial meeting in November 2001, the WTO finally extended a waiver to the EU until 2008 to find a solution to this problem.

The solution preferred by the EU is the establishment of Regional Economic Partnership Agreements (REPAs). The establishment of such agreements is fraught with difficulties, however, especially if they are to confer the same benefits to ACP countries as Lomé. REPAs must be reciprocal arrangements (i.e., nonpreferential to ACP countries in the REPA vis-a-vis the EU). In addition, once the REPA is established, "substantially" all trade between the partners must be duty and quota free. The word "substantially" in this context has not been fully defined. In an agreement between Australia and some Pacific states, 95% of all trade was required to be duty free. Other agreements have excluded agricultural products. The time allowed to reach duty-free status has also been flexibly interpreted but is unlikely to be extended further than 12 years.

Discussions on the establishment of a Free Trade Agreement between South Africa and the EU, under this category of exceptions, took over three years. Deals between the EU and regional groups of countries would obviously be more complex. The WTO Committee on Regional Arrangements, which must approve trade agreements, is also likely to take some time to complete the approval process. ACP representatives have identified several other problems with REPAs.

- The combination of REPA proposals and the market access offered recently to LDCs under the EBA initiative (see below) could serve to split African countries politically

and economically. In essence, LDCs now have little incentive to join a REPA with their DC neighbors because the EBA already offers them full EU market access. Some DCs may even apply to be reclassified as LDCs despite the loss of status involved.

- Many African countries belong to two or more existing economic communities. They may find it difficult to choose which one to join if these communities decide to apply for REPA status.
- Adjustment costs, especially in the context of continued agricultural protectionism, are likely to be high.
- ACP customs revenue could be reduced.
- Since those designing a new regional relationship would have to face the possible requirement that trade barriers between all members of an agreement would have to be the same, this would not please countries with weaker economies in a region dominated by one or more powerful economies.

Another possible solution to the problem of WTO compatibility would be the introduction of an enhanced form of GSP. Some observers have suggested that having a viable GSP could significantly strengthen the hand of ACP negotiators in REPA negotiations. It has also been noted, however, that GSP is noncontractual. GSP was unlikely to offer ACP countries the same level of benefits as Lomé, and the chances of being able to reform the GSP system is limited. One suggestion has been to create a subgroup of countries with improved GSP terms, although the WTO compatibility of this option has been questioned.

Given that WTO rules on free trade areas were designed to cover agreements between partners at similar levels of development, it has been suggested that there is scope for allowing a much greater degree of flexibility in agreements between developed and developing countries. ACP countries are also concerned about the capacity of developing countries to participate meaningfully in trade negotiations. It has been pointed out that southern African countries are involved in national, regional, bilateral, and multinational talks.

One of the ironies of the likely changes to international rules on trade is that ACP countries, most of which are poor, will lose out in agricultural trade, not to other poor countries but mainly to rich and middle-income countries. Australia, Canada, Israel, Turkey, and the USA will be among the main beneficiaries.

Comments on the Cotonou Agreement

The Cotonou agreement represents a compromise reached between ACP countries and the EU and it still contains elements with which ACP countries remain dissatisfied. Continued agricultural protectionism in the EU (especially regarding temperate produce, a sector in which Southern African countries are currently competitive) represents a continuing disagreement between the parties. It has also been noted that the EU has recently expanded its support for processed agricultural exports—often assisted by export refunds for the raw material content of the final product. For example, chocolate and confectionery exporters get refunds for the sugar content and can now undercut ACP producers in their own market.

In addition, ACP countries have complained that, while import tariffs into the EU have been reduced, nontariff barriers represent a major obstacle to improved ACP exports and overall subsidies to EU farmers and exporters have not been reduced.

Most international trade is carried on between the major blocks of industrialized countries—Europe, North America, and industrialized countries of the Far East. Only a small proportion of this trade is in the raw materials, which constitute the bulk of products supplied by developing countries.

The growth of trade between ACP countries and the EU has been much slower than the growth of trade between the EU and other developing countries. Between 1988 and 1997, total exports by ACP countries to the Community grew by less than 4% in volume, whereas those of other developing countries grew by about 75%.

The EU is also committed to expand eastwards to include several Eastern European countries, which have proportionately large agricultural sectors. The EU, which was in any event engaged on a program to reduce subsidies in agriculture, is unlikely to offer new EU countries expensive agricultural subsidies including high, guaranteed prices to farmers. ACP produce imported into the EU within the commodity protocols on beef and sugar are paid for at EU domestic prices. As these fall, so will the price paid to ACP countries for these products.

EU "Everything but Arms" measure

As was mentioned above, the WTO allows countries to offer preferential trading arrangements with LDCs. The EU had, for some time, promised to improve access to its market for LDCs. The EU was convinced that the economic plight of LDCs could be alleviated through increased trade. One way of stimulating trade would be for the EU to dispense with all import tariff barriers and limited quotas on all LDC products. (Clearly, trade in arms and ammunition needs to be discouraged).

Despite stiff resistance from EU agricultural interests from the moment it was proposed, the EU "Everything but Arms" (EBA) measure was agreed in February 2001. In effect, the EU has amended its GSP to extend duty-free access to all LDC imports, but full access for bananas, rice, and sugar will be phased in over the next few years.

The measure grants LDCs duty- and quota-free access to the EU market from 5 March 2001 for all agricultural products including fresh and processed fruit and vegetables, maize and other cereals, starch, oils, processed sugar products, cocoa products, pasta, and alcoholic beverages. Imports of three "sensitive" products, bananas, rice, and sugar, will not be liberalized immediately, however. These products are deemed sensitive because beet sugar is an important European crop, certain southern European agricultural communities depend on rice-growing, and the EU's granting of preferential access to Caribbean bananas is the subject of a long-running, WTO-brokered dispute with the US and Latin American suppliers.

The EU will gradually reduce import tariffs on fresh bananas to zero by cutting the tariff rate by 20% every year between 1 January 2002 and 1 January 2006. Full liberalization of rice imports will be phased in between 1 September 2006 and 1 September 2009 by gradually reducing the full EU tariff to zero. In the meantime, in order to provide effective

market access, LDC rice can be imported duty free within the limits of a tariff quota. The initial quantities of this quota shall be based on best LDC export levels to the EU in the recent past plus 15%. The quota will grow by 15% every year from 2517 tonnes, (husked rice equivalent) in 2001/2002 to 6696 tonnes in 2008/2009.

Full liberalization for LDC sugar imports will be phased in between July 2006 and July 2009 by gradually reducing the full EU tariff to zero. In the meantime, LDC raw sugar can be imported duty free within the limits of a tariff quota, which will grow from 74 185 tonnes in 2001/2002 to 197 355 tonnes in 2008/2009. The quota idea was accepted because some European agricultural interests were concerned that LDC countries would import sugar cheaply from third countries in order to boost their own exports to the EU market and thus negatively affect the EU sugar industry. Sugar imported under the EU/ACP Sugar Protocol will, at present, be unaffected. The EU Commission will closely monitor the volume and origin of all these imports and review the progress of the scheme in 2005. (See below for details of the impact of EBA on sugar producing countries.)

The current EU price for rice is 100% higher than world market prices. EU sugar prices are 160% higher and EU banana prices are 83% higher.

At present LDCs as a group are net importers of rice and sugar, but this new measure is likely to stimulate investment in the production of these commodities. The Sudan is already a small, net-exporter of sugar and is likely to benefit from this measure.

The greatest, long-term benefit to LDCs is likely to come from a stimulation of investment in the production of added-value products. Prior to EBA, the EU set import tariff barriers against processed agricultural products although most raw agricultural products were allowed into the EU duty free. This form of protection, known as escalating tariffs, discouraged investment in LDCs for plant and equipment to convert raw materials into processed goods. Without this tariff barrier, however, investors are likely to realize that, with their comparatively low labor costs, LDCs would become competitive producers of these added-value goods.

It will, of course, take some time for companies to make and implement investment decisions. Quality control is of the utmost importance in the food industry and investors will need to be assured that any subsidiary food-processing company or local contractor has the means of exercising such control. In addition, they will need to assess the political and economic stability of any new manufacturing site before investing. It is also important to remember that the largest component of costs, represented in retail prices of processed food products in the EU, are the combined costs of packaging, branding, advertising, and retailing of goods. The value of none of these components is likely to accrue to LDC suppliers at present.

Some commentators have suggested that, through the EBA measure, the EU will have a greater influence to persuade LDCs that they should be more favorable to EU's views on WTO reforms but the EBA is obviously a good step in the right direction. But how much difference will it make to LDCs?

LDCs represent 10% of the world's population, but account for only 0.5% of world exports. In 1980, their share of world exports was 0.8%. LDC imports to EU are only 1%

of total EU imports, 99% of which are already exempt from duty under the Lomé agreement or GSP. From the LDC's point of view, Europe is a much more important as a trading partner—50% of their exports go to Europe.

The EBA should have the effect of increasing exports overall, increasing the share of LDC exports with the EU and, most importantly, encouraging development of new products in LDCs. The impact is likely to be very modest at first. LDCs have limited capacity to produce more without further investment.

It is also important to note that the EU has said that it will invoke a safeguard clause if their own domestic industries are threatened by too much imported LDC produce. At present it is difficult to measure exactly what the impact will be. Unfortunately, this uncertainty adds insecurity for potential, long-term investors in new production capacity in LDCs.

The EBA is also likely to cause problems for ACP countries classified as DCs. They face more competition in the EU market from LDCs. Mauritius and some Caribbean states are especially worried about losing access to the EU on sugar (see below) and rice.

Another important concession to LDCs in the EBA is their entitlement to import raw materials from certain other countries, including the EU, and to export to the EU, duty free, products processed from these raw materials provided at least 100% has been added to their value.

EBA is not the final answer to LDCs export development. In fact, EU trade barriers are less important to LDCs than quality standards, economic and social stability, better training, and the installation of modern communication systems. LDCs must also be able to convince investors that they represent a safe and stable environment to establish factories and plant to carry out processing work.

The impact of the EBA and EU enlargement on ACP sugar producers

Obviously, the EU's EBA initiative is of greatest interest to LDCs, but it will have an impact on all sugar-producing ACP countries. The expansion of the EU will also be an important factor. The central issue is the difference between the world price for sugar and the EU price. EU farmers receive about US$464/t (the intervention price)—the world price is currently about US$200.

The EU allows 1.3 million tonnes of exports of raw sugar from 19 ACP countries into Europe at the high, intervention price. This concession was made in the Sugar Protocol linked to the Lomé Convention and it's been preserved in the new Cotonou Agreement. In addition, the EU allows 300 000 more tonnes into the EU from ACP countries (and a couple of other developing country producers). This is Special Preference Sugar (SPS) which can be sold in Europe at the equivalent of 85% of the EU intervention price.

Quite recently, the EU passed the EBA measure, which came into force on 5 March 2001. This allows LDCs to import anything into the EU free of duty or any limiting quota. Sugar is an exception—it has been deemed a "sensitive" commodity. Full liberalization will not be granted by the EU immediately but will be phased in between September 2006 and September 2009. The EU has, however, established a quota for LDC sugar to be imported free of import duty. This quota will rise from 74 185 tonnes in 2001 to 129 751 tonnes

in 2005/6 to 197 335 tonnes in 2008/9. There will be no limit on the quantity of sugar allowed into the EU from LDCs thereafter. Although this sugar can be imported into the EU duty free, it will have to compete on the EU market with domestic production and Sugar Protocol supplies. In practice, therefore, it will have to be sold at a discount to the full EU intervention price.

The EU made the decision to grant these concessions in the face of stiff opposition from EU sugar producers. And the EU is still concerned that new imports will compete with EU farmers. For this reason, the EU will closely monitor the impact of EBA and review the situation again in 2005. The EU is one of the highest cost sugar producers in the world but it produces approximately 17 million tonnes each year of beet sugar. It also subsidizes the export of 5 million tonnes of sugar a year at the lower world price by giving EU sugar producers the full intervention price and funding the difference from its agricultural budget.

In the short term, the impact of this measure on the European sugar industry is likely to be very modest. LDCs as a whole are net importers of sugar and even those ACP LDCs that produce a surplus (Sudan and Zambia) have limited extra production capacity in place. The EBA allows LDCs to import world price sugar from third countries and export their own sugar to the EU at the very much higher price, however.

A study by ED&F Man, one of Europe's largest sugar trading companies, concludes that LDCs are likely to begin to increase production and will, by 2009, be able to export considerably more than the 300 000 tonnes of SPS concessions. LDCs are also likely to increase production of white (refined) sugar rather than raw sugar.

Mozambique is likely to be one of the main beneficiaries of the EBA measure as it has many abandoned sugar plantations, which are being brought back into production with investment from investors from Mauritius among others. The World Bank and IMF oppose the expansion of sugar production in Mozambique but allowed the government to go ahead with an expansion program when an FAO report showed that increased sugar production could create thousands of jobs.

The EU's Sugar Protocol was negotiated separately from the Lomé Convention and is legally protected. The agreement covering SPS sugar expires this year, however. ED&F Man are convinced that the EU will reduce the quota of SPS sugar to accommodate EBA sugar. In other words, supplies from non-LDC ACP countries are likely to be sacrificed in favor of supplies imported under the EBA measure.

Let us take Fiji as an example of how the EBA may affect a sugar-producing ACP member classified as a developing country. Fiji produced 266 000 tonnes of sugar in 1998 (a low figure for Fiji because of unusual drought conditions that year). Its EU quota under the Sugar Protocol was 165 348 tonnes. Its SPS quota was 23 000 tonnes. The loss of the SPS quota will amount to approximately US$4.5 million a year. There are three more problems facing ACP sugar producers.

1. The EU is likely to expand to include Poland. Poland produces 1.5 million tonnes of sugar a year, but can only afford export subsidies for 150 000 tonnes. Therefore, when Poland joins the EU, total EU production will be substantially increased.

2. The EU intervention price is likely to fall to comply with WTO rules.
3. If the EU has more to export, it may dispose of it on the world market, thus lowering the world price. The price for ACP sales outside the EU may therefore be reduced.

The EBA, however, represents an important incentive for LDCs to increase sugar production.

Other measures to increase market access for LDCs

The EU is not the only major importer of LDC goods to have adopted measures to increase access from LDCs. Canada, New Zealand, and Norway have notified measures taken, while Japan and the US have proposed or announced new measures that will significantly improve market access for LDCs.

On 1 September 2000, Canada added a further 570 tariff lines from LDCs for duty-free treatment. In November 2000, New Zealand announced that from 1 July 2001, it would give duty- and quota-free access to all LDC imports. In the same month, Norway announced its agreement to offer duty-free access to all industrial and agricultural imports from LDCs with the exception of flour, grain, and feeding stuff. In December 2000, Japan announced that it would increase duty-free status on LDC industrial products from 94 to 99%, which will include textiles and clothing.

US African Growth and Opportunity Act

Like the EU, the US allows many products, especially raw materials, from LDCs into its markets free of duty. It too has responded to the need to increase market access for African goods. The African Growth and Opportunity Act (AGOA) came into force in May 2000. The bill grants duty-free access for certain products from the 48 sub-Saharan countries which were excluded from the US GSP program bringing the number of products in the program to 1835 tariff lines. The program lasts for ten years to allow long-term business planning.

The bill also establishes a US–Africa Cooperation Forum and two privately financed and managed funds. The Forum will facilitate high-level discussions on trade and investment policies and will work with the private sector in the US and Africa to develop a long-term business agenda. The funds will be used to leverage private financing for small and medium-sized US and African companies and promote improved infrastructure development in Africa. One is the US$150 million Equity Fund and the other is a US$500 million infrastructure fund.

The bill will also eliminate quotas on textiles from Kenya. Textiles from African LDCs are exempt from quotas.

Enhanced trade and private-sector investment benefits will be available to all sub-Saharan African countries, but especially those that undertake sustained economic reform, maintain acceptable human rights practices, and make progress towards good governance.

The US has less than 10% of the African market. One reason, according to US Senator Richard G. Lugar, for enacting the AGOA was to assist the US to compete with the EU in supplying Africa with machinery, electronics, financial services, and agricultural products.

Trade Negotiations

The capacity of ECA countries to negotiate trade agreements

Wealthy industrialized countries are able to maintain permanent missions in Geneva for WTO negotiations, in Brussels for EU/ACP talks, and in other negotiation centers. They can afford to employ experienced legal and technical staff to access and analyze relevant information, commission research on areas of interest to them, and can lobby effectively through the mass media and at the various relevant forums throughout the world.

ACP countries vary in their ability to marshal the necessary resources to negotiate effectively in trade talks. Many ACP countries are unable to maintain permanent missions in Geneva or Brussels yet are expected to participate in WTO and ACP talks as well as bilateral and regional trade negotiations.

EU/ACP trade negotiations

The ACP Secretariat groups member countries into six regions—Eastern, Western, Central and Southern Africa and Caribbean and Pacific countries. The EU ambassadors of member countries form the Committee of Ambassadors and these ambassadors are the negotiators at EU/ACP negotiations. Some ambassadors are supported by their own technical staff within their embassies. Most countries have to rely on the technical staff of their various ministries in their capital cities for detailed advice. Further advice and support is offered by the ACP Secretariat. Each of the six regions has formed committees and these are supported by a Bureau responsible for coordinating their work, accessing information, and offering legal support. The totality of African ACP countries rarely meet or cooperate in formulating Africa-wide negotiating positions partly because of the differences in economic profile between African countries.

The ACP Secretariat, in turn, receives assistance from the Commonwealth. This takes the form of a technical aid package, which includes training and funding research studies and will soon include the services of a full-time consultant on trade issues.

WTO negotiations

Developing countries receive assistance from many agencies to strengthen their capacity to negotiate at WTO talks. Despite all this help, there is a tremendous imbalance between the resources available to developing countries and those available to industrialized countries. Kenya, Tanzania, and Uganda, for instance, have only two professional staff in their missions in Geneva, while Hong Kong has ten and the USA up to 250. The Africa Group of WTO representatives meet for an hour each week in Geneva, but in general, the group has not developed a coherent common negotiating position or made alliances to pool their resources.

These countries miss many activities and negotiations undertaken within the many bodies of the WTO. One developing country official commented that their participation within the

WTO is minimal in that they often have to accept whatever is decided by others. A country can only protect its interests if it knows what its interests are and how these can be accommodated within the negotiation agenda. It should be pointed out, however, that many African countries maintain embassies in many countries and some of their Geneva representatives are concerned that their governments do not give activities in Geneva proper priority.

Agricultural Markets

The word market has several meanings. It can be used to describe business or trade in a particular commodity. It can mean the fixed site where buying and selling take place and it can also describe the set of activities involved in buying or selling. This section examines further this last definition in the context of ECA countries.

Marketing activity can range from a barter transaction between farmers, where each swaps one commodity for another, to the informal, micro-entrepreneurial activity of a roadside retailer, to medium-scale bargaining in a major town assembly market, right through to the functions of the huge futures markets in London and New York. In most markets for commodities, the potential buyer has the opportunity to examine the goods on sale before deciding to buy them. This need not be the case if both parties to the transaction know the precise specification of the goods. In most markets too, except usually in retail shops, a transaction only takes place after the buyer and seller haggle to arrive at an agreed price and sale conditions. Often, the details of the final transaction are not known, except to the buyer and seller.

In larger markets, the price arrived at between buyer and seller is often made public and this information helps to set the price for other transactions for that particular commodity. Such markets are said to be "transparent". Markets where buyers have easy access to more than one competing seller and where sellers have access to more than one competing buyer can be described as "competitive" markets.

Competition in markets is encouraged because it forces traders to cut costs and profits and to increase the volume, and hence increase the efficiency of their trading activity. This should have the effect of keeping prices to customers low. Some of these customers might be processors and so the overall effect of competition keeps retail prices down, increases the competitiveness of the country, and matches supply with demand at a particular price.

With the obvious exception of large markets like the Kenya Agricultural Commodity Exchange (KACE) and some tea auctions, most markets in ECA are neither perfectly transparent nor perfectly competitive. But this is true of most markets in the world. Traders are within their legal rights in most markets to keep secret the details of their business from competitors and their other suppliers or customers. It is common practice in this region, however, for traders to collude with each other to pay low prices to suppliers and charge high prices to consumers. Although such practice is outlawed, it is very difficult and expensive for the authorities to enforce regulations. In many isolated places there is only enough trading business to provide a living for a single trader.

Many traders in Africa have little experience of competitive markets. They are unwilling to put fellow traders out of business by raising their purchase price for supplies or cutting prices to customers. They know that if they do this they are likely to expand their business and that with a greater volume of trade they could increase their profits even though they

would earn less profit on each transaction. They fear, however, that other traders might adopt the same strategy and put them out of business. This is, of course, what happens in a competitive market, but as nonefficient, small traders are replaced by efficient, larger traders, the overall efficiency of the market increases and allows the market to grow and increase trading activity.

The various forms of market activity

Agricultural commodities are traded in ECA in several ways. Very large commercial farms and plantations, typically growing tea, sugar, and cotton, often have their own long-term, direct contractual arrangements with one or more buyers. They may also make sales at formal auctions or on futures markets. (For information on the role and function of futures markets, see Annex 1).

Most agricultural products are consumed by farmers themselves. At the village level, farmers may barter one product of which they have a surplus for a product which another farmer has produced as a surplus. Surpluses, which are not disposed of in this way are brought, usually in tiny quantities, by bicycle or draught animal to the village market where they might be sold by local, small-scale retailers. Any quantities surplus to village needs are likely to be sold to itinerant traders whose activities might cover several village markets. These traders typically own or hire small vehicles and sell the produce to a larger sedentary trader in the nearest assembly market. Assembly markets have the function of "bulking up" small parcels of produce into full truck loads of a similar product which can then be sold in markets sited in major cities or for export. Traders in assembly markets may also sort, grade, and accurately weigh the produce and repack it into standard weight bags. At each level in this marketing chain a proportion of the commodities is likely to be processed into higher value goods or sold for retail. In addition, these fixed site markets also act as retail outlets for farm inputs, tools, and consumer goods.

Market site ownership and management may be controlled by local government or by private companies. They are likely to be responsible for collecting market fees from stallholders, market porters, sedentary traders, and those bringing in and taking out produce from the market. Fee rates may be fixed or levied according to the quantity of produce bought or sold. They are also likely to be responsible for cleaning the market, providing and repairing market stalls and buildings, and for regulating trade.

Although these fixed markets account for the purchase and sale of most surplus agricultural goods, a proportion of produce may be sold directly or through small itinerant traders to roadside markets. Travelers on the road can purchase these goods for their own use, but some traders with access to vehicles may purchase goods from these markets for forward sale in assembly markets.

Another proportion of surplus goods may be purchased from farmers by local storeowners who, again, are likely to bulk up supplies from several farmers before selling to a trader. In addition to these forms of market activity, some very large traders, specializing usually in a small range of commodities, often hire or employ agents who tour the country in lorries at appropriate harvest times to purchase supplies from village markets.

At the wholesale end of these markets, the largest traders, who may be locally or foreign owned, can prepare the product for export or repackage it for large-scale retail outlets.

In Africa, only the wholesale end of these forms of market activity is likely to be very competitive or transparent. Traders often collude with each other to fix their purchase and retail prices for a particular commodity in a particular location for a fixed period of time. They will change these fixed prices from time to time according to market conditions, however. In some countries, all transactions are in cash as credit is expensive and hard to come by. Some credit may be advanced by traders to farmers, but often at usurious interest rates. Farmers are reluctant to part with goods without payment at the point of sale. Very little use is made of written contracts except for the largest deals.

ECA commodity exchanges

There are many formal commodity exchanges in the world. They are simply places where buyers and sellers meet to formally trade contracts representing parcels of commodities where samples of the produce are available for inspection. A tea auction could be described as a commodity exchange and several other commodity exchanges deal in a single commodity. The commodity exchanges in Kenya and South Africa trade in a range of grains.

Commodity exchanges can only function in certain market conditions and, with some exceptions, few of these conditions exist in ECA countries. These conditions may change over time, however, and more exchanges might be established.

Almost all commodity exchanges have been established by private-sector initiatives. This usually happens when the number of buyers and sellers grows too large for one-to-one transactions to be quickly and efficiently executed. If, for instance, there are 100 sellers of maize and 100 buyers of maize all wishing to do business at the same time it would take a great deal of time and cost for each party to meet to exchange offers and bids for maize and to use the offer of those buying and selling commitments with other potential contracting parties to drive a better bargain.

In the normal model of a commodity exchange, buyers and sellers give their buying and selling orders to a limited number of brokers who aggregate the buying and selling orders and execute them in bargaining sessions with brokers acting for other clients. The price at which these transactions are executed becomes a benchmark price for that particular commodity at that particular time. Trading volume has to be sufficiently large to provide enough commission to brokers to enable them to earn a living and pay for the administration of the exchange.

The quality, quantity, location, and delivery time of the commodity in question has to be precisely defined for the benchmark price to mean anything.

Apart from coffee and sugar, whose international prices are determined outside the country, ECA countries produce surpluses of only very few commodities significantly large enough to justify the establishment of a commodities exchange to trade them. Kenya is exceptional in that it has a significant production from large commercial farms and has established the Kenya Agricultural Commodity Exchange.

It should be noted that without strict regulation, commodity markets are prone to manipulation, tax evasion schemes, inside trading, and wild speculation by people who

cannot afford the losses they make. Quality control is also an essential precondition to formal trading systems of this kind. Very few actors in the ECA agricultural sector have access to the sophisticated testing equipment necessary to specify the exact quality of any agricultural product.

Most farming in ECA takes place in very small units. Seeds, farming methods, packing, and storing differ from farm to farm. The quality of every commodity produced can vary very widely with hardly any two batches being the same. Even if quality control could be established well enough to ensure that all parcels of a commodity traded under a specific contract were of the same specification, it is unlikely that these standards would be recognized internationally without further costly testing by the recognized independent companies in this field.

The authority of a commodity exchange depends also on the integrity of documents of title. The security of the warehouse in which the commodity is stored and proof of ownership imply a need for a high degree of legal and banking control and efficiency.

In the developed world, and in certain other countries where modern farming methods are used, large farming units together with standardized farming techniques and mechanical farming methods ensures the production of huge quantities of a homogeneous products that is best marketed through a formal exchange. Few of these conditions apply in ECA.

The "Postadjustment Agenda"

Most sub-Saharan African countries had implemented SAPs by the mid-1990s. Developing and Least Developed WTO-member countries will have completed the implementation of their commitments to the WTO Agreement on Agriculture by the end of 2004.

Although the adoption of these measures has strengthened certain elements of the market infrastructure in ECA countries, many studies have shown that some sectors of the agricultural industry and a significant segment of the population have been adversely affected by the liberalization process.

In a long-term analysis of economic trends in sub-Saharan Africa, it was found that adjustment situations had made little positive difference to growth or poverty alleviation. Using statistics collected by the FAO, growth rates in 37 adjusting African countries were not significantly different in the adjustment years of 1986–1993 than they had been in the previous seven-year period. Of the sampled countries, 24% had better growth rates, 22% had the same rate of growth, and 52% had worse rates.

In some African countries, liberalization has not led, either, to the hoped-for stimulation of industrial development. In Ghana, access to capacity was used up after the government adopted more liberalized policies and the exposure to foreign competition led to a deceleration in growth from + 5.6% in 1988 to 2.6% in 1991 to only 1.1% in 1992. Employment in manufacturing fell from 78 000 in 1987 to 28 000 in 1993.

The central issue now, therefore, for ECA countries is how they might take advantage of the opportunities that have been offered by more liberalized markets, while at the same time devising strategies to combat the negative effects of the process.

Various options have been proposed. Some strategies, quite clearly, can only be considered by global institutions such as the World Bank, IMF, and the WTO. It is of vital importance, therefore, for developing countries to make their voice heard at these forums and to develop clear and practical policies, singly and in groups, which have the maximum chance of being adopted by these institutions.

The task of designing strategies to support the agricultural sectors of ECA countries has to be addressed at many levels and by many different public and private-sector agencies. In many African countries, government agencies responsible for agriculture, finance, transport, industry, and trade have been coordinating efforts to provide an environment which will allow the agricultural sector to become more productive and efficient. The most important task for government has been to establish a legal framework to encourage investment and competitive trading activity in agricultural goods. Agricultural development and research agencies have focused, in recent years, on the need to increase production and productivity in the sector. More needs to be done in these areas, especially for food products. Land reform and measures to provide access to water and proper regulation of trading activity are needed desperately in many countries.

These types of measures are designed to allow market forces to work to their optimum extent to encourage competitive sources of supply, to keep costs down, to attract investment, to stimulate exports, and to maximize production of goods that the country can produce competitively.

Important as these measures are, they are unlikely, in the short or medium term, to address the negative aspects of globalization or to provide the level of support for agriculture needed to significantly improve the welfare of the majority of actors in the agricultural sector.

The negative aspects of liberalization have now been clearly identified. If these are to be tackled directly, it has become obvious that some new strategies are required. These strategies have been referred to as the "postadjustment agenda".

Some consensus among developing countries and development analysts on the way forward has begun to emerge. It was recognized even before the establishment of the WTO that developing countries needed to be treated differently from developed countries in so far as their commitment to reduction of input and investment subsidies was concerned. This concept is incorporated in the WTO ruling on "Special and differential treatment", which also allowed developing countries more time to comply with WTO rules and to be assisted with technical advice and food supplies in times of high international prices caused by reduced farm support.

The international community had, in essence, decided that market forces alone, at least in the short term, could not solve the problem of the lack of development of agriculture in developing countries. Some form of intervention in the market process would be needed.

This does not mean that there will be any move to re-establish state-owned industries or marketing boards to control the distribution of goods. But any postadjustment agenda is likely to extend the scope of intervention to overcome the negative aspects of globalization with the ultimate objective of preparing countries to take up a competitive position in world markets. But where and what type of intervention is needed? How can such intervention be linked to improving not only the competitiveness of agriculture but also ensure that benefits are enjoyed by all actors in the sector? Which agencies should be used to make these decisions and which should implement agreed strategies? Many policy-makers have proposed that this issue must be the concern of every agency in agriculture if new strategies are to be successful.

The international dimension of the postadjustment agenda

Not surprisingly perhaps, many developing countries have been making concerted representations to the WTO in an effort to change international rules which effect their agricultural sectors. A total of 121 proposals have been made to the WTO Committee on Agriculture in the current sessions of discussion.

Most proposals submitted by developing countries make radical proposals for change. In particular, they have proposed that "special and differential treatment" should be enhanced and that "special safeguard measures" in the Agreement on Agriculture (AoA) should continue to protect developing countries from surges in imports. They submit that WTO reform should not be based on a "one-size-fits-all-approach" and that due

consideration must be given to the heterogeneity and diversity of country situations in order to ensure sufficient flexibility and room for maneuver to address nontrade concerns in all WTO member countries. Developing countries should be allowed more support for their own agricultural markets, should be granted more market access, and should receive more technical assistance.

A proposal submitted to the WTO by a group of countries (Cuba, Dominican Republic, El Salvador, Haiti, Honduras, Kenya, Nicaragua, Pakistan, Sri Lanka, Uganda, and Zimbabwe) sums up many of the ideas put forward by other developing countries.

This proposal links the concepts of food security and national security and also calls for the strengthening of special and differential treatment for developing countries. The proposal calls for key products, especially food staples, to be exempt from liberalization. It says that the domestic production capacity of developing countries must be encouraged and helped to become more competitive, rather than be destroyed on the basis of noncompetitiveness. It points out that national security issues are exempt from WTO trade disciplines and that food security is inextricably linked to national security. Countries in dire need and dependent on other countries for something as basic as food are politically weakened. In the past, it says, food has been used to gain a political and economic stranglehold over a country.

The proposal goes on to suggest that AoA rules seem to bestow special and differential treatment on developed rather than developing countries. Overall subsidies have increased rather than decreased in OECD countries. While special and differential subsidies allowed to developing countries are limited to only input and investment subsidies, developed countries have recourse to the Blue box (measures such as "set-aside" and other payments to farmers for reducing or maintaining production) and the very broad and vaguely defined Green box categories of subsidy.

The proposal also calls for an end to the "dumping" of subsidized products on developing country markets. In addition, the proposal complains that there has been no political will to activate the Marrakech Decision (the decision to compensate net food-importing developing countries for increased costs of food imports caused by the reform process).

The proposal introduces to the WTO the very interesting idea of the "Development Box"**.** Several groups of exemptions to agricultural support and protection measures used mainly by developed countries are grouped together in the Blue, Amber, and Green boxes. This proposal suggests that measures designed to assist developing countries should also be grouped together in a development box. These would include measures to:

- protect and enhance domestic food production capacity, especially for staples
- increase food security and food accessibility, especially for the poorest
- provide or, at least, sustain existing employment for the rural poor
- protect farmers, which are already producing an adequate supply of key agricultural products from the onslaught of cheap imports
- offer the necessary flexibility to provide support to farmers, especially in terms of increasing their production capacity and competitiveness
- stop the dumping of cheap, subsidized imports on developing countries.

The idea, if taken up by the WTO, would replace and strengthen existing elements of the AoA which are, at present, scattered over several different clauses of the agreement and in other linked agreements such as various international food aid provisions and the Marrakech Decision.

Preparation for the WTO Ministerial meeting in Doha

Despite the very many differences between LDCs, they were able to come together to agree a common front towards the November 2001 WTO Ministerial Conference in Doha. Trade ministers from 49 LDCs met in Zanzibar, Tanzania from 22 to 24 July 2001. In a statement, the LDCs expressed their determination to "reverse the marginalization of our countries in international trade and enhance LDCs' effective participation in the multilateral trading system". The countries agreed on a Draft Development Agenda containing negotiating objectives and proposals of LDCs for use in Doha.

In their Development Agenda, ministers reiterated that the promotion of development should form the core business of the multilateral trading system. The fourth WTO Ministerial Conference, they said, should further make significant movement on addressing implementation issues, confirmation of the principles of special and differential treatment (for developing countries) and trade policy flexibility to accommodate the interests of LDCs, and a commitment to ensuring an inclusive and transparent negotiating process before, during, and after the Doha Conference. LDC ministers also took the view that the scope of future multilateral trade negotiations will have to take into account the inability of LDCs to participate effectively in negotiations on a broad agenda and implement new obligations due to the well-known limited capacity of LDCs. These sentiments have been translated into a set of proposals, which were persued by LDCs at the Doha meeting. These proposals include:

Market access

- LDCs overall capacity to respond to the opportunities offered by the trading system should be improved by, for example, providing duty-free market access on an autonomous basis to LDC products.
- Commitment should be given to provide a contractual status to duty-free and quota-free preferences through negotiation of a new legal instrument to make market access secure, stable, and predictable. Any temporary withdrawal of duty-free treatment should be disciplined in a contractual manner.
- Duty-free treatment should be provided to all products.
- Existing special and differential treatment provisions should be improved in an effective manner with a view to ensuring that duty-free access is not nullified by nontariff measures.

Implementation

- Bound, duty-free, and quota-free market access should be immediately implemented for all primary, semiprocessed, and processed LDC agricultural products.

- The decision on measures concerning the possible negative effects of the reform process on LDCs and net-food importing countries (NFIDCs) should be implemented in a full and effective manner.

  (This proposal refers to the special ministerial decision signed at Marrakech in April 1994. Signatories promised to help those countries 'concerned by any rise in the world price and consequent increased expenditure on food imports which may result from the implementation of the Agreement'. Aid may take the form of food aid and/or aid to the development of agriculture. In the short term, the International Monetary Fund or the World Bank may provide financial assistance to 'ensure normal levels of commercial imports of basic foodstuffs'. Unfortunately, the wording of the Marrakech Decision is rather vague and no specific measures to assist food-deficit countries were included.)

Sanitary and phytosanitary measures (SPS) and technical barriers to trade (TBT)

- Technical assistance should be provided to LDCs for the implementation of these agreements with a view to responding to the special problems faced by them. Such technical assistance could include, among other things, building-up capacities in the fields of accreditation, standards, metrology (weights and measures), and certification.
- The effective participation of LDCs in the international and regional standards-setting bodies should be accorded priority and adequate technical assistance and financial resources should be provided. (The WTO has received complaints that its standards-setting role is influenced too greatly by multinational corporations.)

Agriculture

- Article 15.2 of the WTO AoA should be maintained so as to ensure that LDCs are not required to undertake reduction commitments on domestic support, export competition policies, and market access throughout the agricultural reform process.
- Steps should be taken towards immediate abolition of export subsidies for agricultural products, which are of particular export interest to LDCs, within the special sessions of the Committee on Agriculture, before the review of the Second Phase in March 2002. (This proposal would go someway to addressing the problem of exported products, subsidized mainly by developed countries, being dumped on LDC markets.)
- A consultative group within relevant WTO Committees should be established, which would receive requests from LDCs for technical and financial assistance in areas of SPS and TBT and identify possible donors.
- A fast-track, dispute-settlement mechanism should be established for cases involving LDCs.
- An interagency revolving fund should be set up, comprising existing and new financing facilities, as appropriate, to facilitate adequate financing on concessional terms for LDCs and NFIDCs in times of high world market prices. It should also provide technical and financial assistance to improve these countries' productivity and infrastructure, in addition to the regular bilateral and multilateral activities of donors in this area.
- Trade and production-distorting, domestic support measures in developed countries should be substantially and progressively reduced during the course of the reform process.

Capacity building and technical assistance

- Negotiating capacities of LDCs should be strengthened.
- Technical assistance for the implementation of multilateral trade agreements should be increased in order for LDCs to exercise their rights under the Agreements and exploit trading opportunities.
- Technical and capacity-building programs for LDCs should be provided in order to address the supply-side constraints including information and communication technology for them to take advantage of trade opportunities identified through the mainstreaming process.
- Technical assistance should also be provided to increase participation and negotiating capacity of LDCs in regional trade arrangements as a step to better participate in multilateral trade negotiations and achieve coherent negotiating objectives.

Trade and the environment

- LDCs are of the view that, under no circumstances, should environmental considerations be used for protectionist purposes against LDC products.

Debt

- All LDC debts should be cancelled.

The WTO Ministerial meeting in Doha, November 2001

Unlike the WTO's previous ministerial meeting in Seattle, the Doha meeting ended with an agreed declaration of intention for a future program.

On agriculture, the declaration confirmed the commitment of member countries to substantial improvements in market access, the reduction and eventual phasing out of export subsidies, and reductions in trade-distorting farm support. The strengthening of special and differential treatment for developing countries will be given special priority and will include food security and rural development and "nontrade" concerns will be taken into account. Modalities for further commitments, including provisions for special and differential treatment, will be established no later than 31 March 2003.

As is often the case, the wording of the declaration is rather vague and no specific new measures have been agreed. Developing countries have taken some comfort from the short period allowed for further advances in provisions for special and differential treatment, however.

Domestic dimensions of the postadjustment agenda

The challenges faced by the agricultural sectors of developing countries in adjusting to changes in international trading rules have to be recognized at the international level, but much needs to be done to develop and implement a postadjustment agenda at the national and regional level.

Most farming in ECA countries is carried out by small-scale farmers using traditional agricultural techniques. It would be socially, economically, and politically impossible, in the short term, to impose a modern, commercial farming regime on these countries. The social

cohesion of rural communities compensates, to some extent, for the lack of a government-funded, social safety net for the poorest members of the community. There are no other industries in these countries that could offer employment on the scale needed to employ redundant agricultural workers and the amount of investment available for agricultural development is very limited.

It has now been recognized by most agricultural development agencies that the objectives for new development policies should be to assist traditional farmers to adequately feed themselves and, if they are able to produce a surplus, to help them to produce higher quality, higher value products. Every effort should be made to ensure that farmers receive a greater share of the retail price for their goods.

Small-scale production, by definition, cannot achieve the economies of scale required to compete with the mechanized, large-scale, production methods used in competing countries. (Dutch onions are now sold in Senegal and South African potatoes in Uganda.) Economies of scale could be improved, however, if farmers joined each other in collective activity. This might include sorting, grading, storage, and packing of a homogeneous product, the acquisition of vehicles for transport, the establishment of credit unions, and the collective marketing of their produce.

If traditional farmers are to improve the quality and value of their surplus production, they must have access to information about the markets for these products and must receive the necessary and appropriate assistance to learn how to produce them.

These objectives were reflected in the views expressed by farmers in a workshop recently held by United Nations Coucil on Trade and Development (UNCTAD) in Kenya. The workshop recommendations included:

- Encouraging the formation of producers' associations.
- Increasing support for access to market information.
- Increasing stakeholders' influence on research and development programs (such as variety research) of state research institutes.
- Implementing group export schemes to reduce dependence on middlemen and to increase farmers' share of export price and make use of collateral guarantee schemes to raise credit.
- Increasing access to information on supply and demand patterns.

Encouraging collective farming activities

Farmers' cooperatives and associations are common and popular in many parts of the world including Europe and Latin America. The historical experience of cooperativization in many African countries (including collective farms in Ethiopia) has not been positive, however. There is ample evidence of cooperative management being weak and even corrupt especially where cooperativization has been imposed on farmer groups. Although the benefits of collective activity are obvious, the historical legacy of negative experience with cooperatives has made many farmers wary of adopting this option. There are, however, many successful examples of cooperation among African farmers. These tend to be among

farmers involved in specific crop sectors (tomato growers in Ghana, for instance) and in pre-existing groups bound together by kinship, religion, language, etc. where the group itself has proposed collective activity.

Some African governments have seen the merit of encouraging collective activity among farmers. They have allowed farmers to establish legally recognized groups, enabling them to access credit more easily. Some NGOs specialize in assisting farmers to find ways of working together. This assistance may take the form of advice on forming democratic, decision-making structures, offering training on marketing skills, bookkeeping and financial control, and providing them with computers and telecommunication systems.

Such assistance enables small-scale farmers to "bulk-up" their surplus production and purchase their inputs in bulk. They are better able to improve the quality of their produce and to transport them to larger markets where better prices are offered. Access to credit allows them to purchase draught animals and storage facilities. Such collective activity could put small-scale traders out of business, but one farmers' association in Southern Uganda decided to employ local traders to help them negotiate with larger traders.

Land reform is a crucial component in the effort to encourage farmers to work together. Commercial farms are able to borrow money using their land ownership as collateral. If small-scale farmers could do the same, it would bring much-needed investment to the countryside. Collective activity might well lead to some groups of farmers amalgamating contiguous farms to put them on a more commercial basis. Land reform policy needs to allow for this eventuality.

Market information

International donors recognized the need to inform all actors in African agricultural sectors about market conditions as these markets were liberalized. They provided the necessary resources for governments to set up centralized market information services (MISs). Over the last decade, most donors have withdrawn assistance for MISs, however, as they became overbureaucratic and failed to meet the needs of their intended beneficiaries, especially typical, small-scale producers.

This means that most farmers are unaware of prices and other market conditions even in their nearest town which puts them in an impossibly vulnerable bargaining position with traders who are able to take advantage of their ignorance. The lack of market information has the effect of draining resources out of rural areas where most poor people live. It also means that farmers are unaware of the types and quality of produce being sought by national, regional, and international customers which hinders the entire nation in its efforts to earn more from exports.

The advent in recent years of mobile telephone systems and local FM radio stations now offers the opportunity to establish locally based MIS which can disseminate appropriate market information in the local language.

The markets for much of the produce of small-scale farmers are influenced only by local conditions. The markets for some of their surplus goods are dependent on market conditions throughout the country, region, or the entire world. For this reason, locally

based MIS need to be linked to MIS services used by larger scale farmers and traders and to world market information sources.

The role of agricultural research and development programs

African farmers have depended heavily on agricultural research to obtain access to better yielding varieties and varieties of drought- and disease-resistant crops. There have been, however, numerous examples of agricultural research organizations encouraging the use of inappropriate products and techniques. Farmers need assistance to find products, which they can grow with their limited access to tools and pesticides, etc. They must not be encouraged to grow products for which there is a limited market or where there are no traders who have experience of markets for those products.

Agricultural research and development organizations must link their programs to the market environment within which their clients must operate. They need to undertake an analysis of the farmers' needs and abilities. Assistance to subsistence farmers must be offered with the objective of helping the farmers to feed themselves and their families. Assistance programs for farmers with a marketable surplus must be informed by a detailed analysis of local market conditions. These organizations need to assess existing and potential demand for the range and quality of commodities that can be produced. They need to accurately estimate the resources required to assist farmers to produce new products and compare the cost of such assistance with the benefits that farmers might receive from the sale of those products. In addition, these agencies need to play their part in assessing the benefits and disadvantages of encouraging farmers to act together effectively to improve economies of scale and the quality of their products.

Technical assistance to farmers will still be vital, but no program of assistance should be undertaken without an accurate assessment of whether there is an adequate and continued demand for the quality and quantity of products that result from the program. If a research or development program results in production of a particular commodity, which has no local demand, efforts should be made, prior to the implementation of the program, to assess the need for adequate transport, storage, and financing to enable the commodity to be marketed successfully in a more distant market. In addition, the organization needs to inform itself of details of programs of any other agencies working in the area in order to avoid duplication of effort or a negative market impact caused by the combination of programs.

In order to do this work these organizations will need to develop or acquire new skills in order to adapt to a market-oriented agricultural environment. If they are to ensure that their work is positively received by farmers and to adequately reflect farmers' needs, they must offer farmers the opportunity to participate in the choice of criteria for research and development and in the implementation of assistance programs.

Credit provision

The lives of many African farmers could be transformed if they had adequate access to credit. The commercial banking sector in Africa is no longer willing to extend credit facilities to anyone other than the very largest actors in the agricultural sector. The

repayment of unsecured loans by small-scale farmers cannot be assured. The administrative cost of credit provision of small sums to thousands of farmers is prohibitive. Local African currencies are subject to fluctuation and devaluation. These risks and costs are reflected in onerous interest rates which, in turn, add to the uncertainty of debt repayment.

The problem remains, however. If farmers are to protect themselves from usurious moneylenders and traders who can take advantage of their inability to store their produce in periods of low prices; and if they are to compete in the regional and international market, investment must be made in the agricultural sector. Since commercial interests are unlikely to invest in small-scale farming, credit must be extended to the farmers themselves. Many development agencies have established microcredit schemes but these need to be extended and further subsidized and underwritten by donors. These agencies too should encourage secure and productive forms of saving and the formation of farmers' credit unions. This would not only add security to lenders but also encourage more efficient farming activities.

Managing markets and the end of globalization

In the current climate of liberalization and globalization, it is unexpected to hear about moves that appear to go against this trend. However, there are new initiatives that are seeking to soften the effect of globalization on primary producers and also trends in the marketplace which suggest that transnationals are narrowing their trade horizons to the areas they know best, i.e., Europe–Africa, Asia, and the Americas.

Another analysis of globalization

Not everyone agrees on the direction that globalization will take. Alan Rugman, in his book *The End of Globalization,* has analyzed the policies of some of the world's largest corporations and shown that strong government regulations and cultural differences divide the commercial world into three main "Triad" blocks dominated regionally by North America, the European Union, and Japan. The business strategies of these corporations are now regional and responsive to local consumers, rather than global and uniform. Ninety-five percent of all cars made in Europe, for instance, are sold in Europe. ECA countries should, therefore, include in their strategies the need to develop products and services which best suit the local markets they know best.

Priority Issues for Government and Agricultural Development Agencies

The following are some questions that need to be asked by government agencies, donors, private-sector actors, and agricultural development and research agencies.

Are ECA countries adequately prepared for forthcoming trade negotiations?

ECA countries are engaged in regional trade talks, negotiations within the EU and WTO agreements, regional trade talks, and bilateral negotiations. ECA negotiators agree that they have an inadequate capacity to carry out this work and are in danger of failing to fully represent their countries' interest. Most developed countries maintain large negotiating teams of lawyers, economists, trade experts, diplomats, and interpreters often augmented with experts from the private sector. In addition, their government ministries efficiently coordinate their policy-making processes to support their negotiation teams. ECA countries maintain diplomatic missions in many countries but these resources may not take priority over the requirements of trade negotiation teams.

Consideration should be given by ECA governments to conducting an overall analysis of the appropriate manpower available within government departments and diplomatic missions and the capacity required for negotiations.

In addition to increasing the capacity to conduct trade talks with adequate capacity, consideration should be given to building a special unit of appropriately qualified government officers charged with the task of coordinating trade policy between ministries and supporting negotiation teams with rapid policy decisions.

English is now the language most used in international trade talks. Negotiators need to be completely fluent in the language.

Urgent attention should be paid to providing adequate capacity to negotiate new trading relationships with the EU. The issue is highly complex and the timetable for completion of agreements limited.

Are ECA countries maximizing cooperation in negotiations with other countries?

Although institutions exist to facilitate cooperation between African countries in their efforts to coordinate negotiating positions, they fail to reach the degree of consensus achieved by, say, the Cairns Group of agricultural exporting countries at WTO talks. Many African countries produce the same agricultural commodities produced in Caribbean and Pacific countries and face similar development problems as those countries. Efforts should be made to work more closely with these countries and with organizations in the developed world campaigning for similar objectives.

Are ECA countries explaining their position well enough to the world?

The media in the developed world is disproportionately influenced by the trading and financial interests of developed countries. ECA governments should consider making more effort to explain their position in international trade negotiations to a wider audience.

Is it possible to coordinate international supply management of tropical commodities?

Governments should consider investigating the possibility of using the Green and Blue box provisions in the WTO AoA to gain a legal basis for managing global supplies of tropical agricultural produce to reduce oversupply and support prices.

Is the development of the countryside given its proper priority by ECA governments?

Since agriculture represents by far the largest economic sector of ECA countries, the Ministry of Agriculture's work needs to be properly integrated with the ministries responsible for trade, finance, transport, and commerce and with the ministry dealing with foreign affairs, where necessary. Inward investment for industrial development has not been sufficient to build a significant industrial base in ECA countries. The utilization of domestically produced, agricultural raw materials and food products in the manufacture of added-value products offers an opportunity for building an appropriate manufacturing sector. Governments should consider conducting an analysis of manufacturing opportunities based on agricultural raw materials.

How can the balance be achieved between the development of commercial farms and helping small-scale farming to become more commercial?

Unless employment can be created in urban centers, the rural population needs to be encouraged to remain in the countryside. This can only be achieved by reversing the flow of revenue accumulation away from the countryside. The development of larger, more numerous, more efficient commercial farms may displace the rural population. Encouraging collective farming and marketing activity between small-scale farmers may also increase economies of scale and offer a better solution in the short and medium term. A social and economic analysis needs to be conducted to measure the benefits and disadvantages of increased commercialization in the farming sector.

What steps are being taken to improve agricultural markets?

In order to increase confidence in the trading system in ECA countries, markets must be made more competitive and transparent. Consideration should be given to providing appropriate and timely market information for all actors in agriculture on both inputs and outputs. Such market information services need to coordinate local information with market information at the regional and international level. Market manipulation and the establishment of cartels and other noncompetitive activity among traders must be monitored and laws designed to prevent such activity must be enforced.

What measures are being taken to improve access to transport in rural areas?

Farming income could be improved if the cost of obtaining inputs and moving agricultural products to market was reduced. Consideration should be given to offering tax incentives to transporters serving rural areas. The abolition of road tolls would also have a positive effect.

What steps are being taken to improve regional trade?

An analysis of existing and potential national production of agricultural products should be undertaken together with a similar analysis for neighboring countries. Such an exercise would identify potential trade opportunities. This would allow support to be offered to enterprises capable of increasing trade. Control of cross-border smuggling needs to be strengthened in order to collect more tariff revenue and avoid trade distortions.

How can exports of added-value agricultural goods be developed?

ECA governments should consider acting as a facilitator between agricultural processing entrepreneurs and large hotels, tourist resorts, and national airlines with the objective of using these outlets for developing and test marketing locally produced, added-value products. Such experience will assist producers to develop products suitable for the export market. Support for export market research should be increased. In addition, consideration should be given to the establishment of a dedicated unit within the Ministry of Agriculture to work with private-sector actors and agricultural development agencies to coordinate research on and development of added-value products.

What policies should be adopted to reduce dependence on imports of agricultural produce?

Careful analysis of import statistics needs to be undertaken in order to identify those imported products that could be produced competitively by local producers. Subsidizing local production is likely to prove counterproductive but import research analysis findings should be made available to private-sector actors who might be supported with research and development assistance.

What steps should be taken to improve access to credit for small-scale producers?

The private sector cannot profitably offer small loans to millions of small-scale actors in agriculture. Several donor organizations specialize in this form of assistance, however. Governments could make such services more secure by encouraging the establishment of group savings schemes and credit unions. Land reform should be urgently developed to allow farmers to use title to land as collateral for loans.

How can food security be improved?

Apart from measures designed to improve output of food products, governments need to conduct a cost–benefit analysis of farming capacity in order to develop measures

to encourage a proper balance between cash crop and food production. Government negotiators need to work towards pressing the WTO to strengthen provisions made under the special ministerial decision to provide financial assistance to "ensure normal levels of commercial imports of basic foodstuffs", but at the same time, to strengthen antidumping measures. Increased storage facilities are also essential.

How can agricultural extension and research services meet the new demands of farmers?

Apart from the necessity to undertake a thorough review of the work programs and efficiency of extension and research agencies, they should urgently consider recruiting staff with an understanding of market systems. These new skills should be used to inform policy and project design. The traditional work of these agencies in training farmers, tackling animal and plant disease, designing irrigation systems, etc. must continue. The promotion of increased output of particular products and the introduction of new products, however, should only be undertaken as research confirms that any product capable of being produced by local farmers has an adequate and accessible market, which can absorb these products without damaging the market. This should involve the agencies working closely with market information providers, traders, exporters, and trade experts.

Extension services should also be equipped to advise farmers on how they could work with their neighbors to collectively produce and market their output. Farmers also need training to understand how to use market information and the benefits and difficulties involved in increasing production for sale.

In addition, these services should increase their capacity to advise farmers on quality control and sanitary and phytosanitatary standards to ensure that output meets the quality demands of local and overseas customers. The work of these organizations should be informed and constantly reviewed by close consultation with farmers. For a more detailed review of the strategic options see Annex IV.

Profiles of Individual Countries

Similarities and differences in ECA countries

ECA countries face very similar challenges in their efforts to become successful players in the globalized economy. All ten countries covered by this study are ACP members and conduct a significant percentage of their overseas trade with Europe. Their economies are highly dependent on agriculture and the bulk of their agricultural production is carried out by small-scale producers using traditional, low technology farming and processing methods. For a statistical comparison of economic indicators of the target countries see Annex V, Tables 1–4.

Transport systems, storage facilities, access to credit, and extension services for the agricultural sector are at a low level of development in all ten countries. Throughout the region there is almost a complete absence of new industries based on modern technology or intellectual innovation although the availability of computers, mobile telephones, and FM radio stations is increasing rapidly. Population growth is high and average incomes are low compared even to sub-Saharan African levels. Illiteracy rates are high and educational services, especially for girls, are inadequate. All ten countries have a high dependence on aid and development programs. The degree to which these countries can influence global policy on international trade is also low.

Although each country needs to address these problems with similar strategies, there are significant differences between the countries, which must be taken into account.

Kenya is classified as a net food importing developing country (NFIDC); the others are classified as LDCs. The Democratic Republic of Congo (DRC), Ethiopia, Eritrea, and Sudan are not yet members of the WTO. Burundi, Ethiopia, Rwanda, and Uganda are landlocked. With the exception of Kenya, Madagascar, and Tanzania, these countries have all suffered devastating conflict in recent times. In addition, there is significant variation between and within countries in rainfall, topography, soil types, and altitude resulting in a wide range of different crops grown across the region.

Economic growth rates vary markedly between ECA countries with GDP growth in some countries at 5% and a shrinkage in the economies of others. It should be noted, however, that growth needs to occur at rates above 2.5% just to keep up with the growth in population. Growth rate figures in countries, which have recently overcome serious problems of internal security may only reflect a return to normal farming and other sector activities and may not represent sustainable growth. The restoration of development aid to countries, which have undertaken liberalizing reform also has the effect of boosting their economies.

The economies of four states (Burundi, DRC, Eritrea, and Rwanda) have been left in turmoil due to internal conflict and rely almost completely on emergency reconstruction programs. Although the governments of these countries have accepted the need for economic reform, it may be some years before the affects of these reforms can be measured. Other

ECA countries (Ethiopia, Madagascar, Sudan) have only recently begun to liberalize their economies. The remaining ECA countries (Kenya, Tanzania, and Uganda) have pursued economic liberalization programs for a decade or more with varying degrees of success.

Some elements of the agricultural sectors and rural fabric of these countries are clearly more vulnerable than others. While some might need public sector or donor support and protection, others might be helped to evolve into more robust entities by exposure to fair competition.

The similarities between the countries offer opportunities for finding many areas for cooperation on regional strategies for agricultural research and development and for harmonizing negotiating positions on external trade in agricultural products. Such cooperation may fruitfully take place between countries producing similar crops and those who identify trade opportunities between them. Those countries engaged in the reconstruction of the sector after long periods of conflict may also benefit from sharing experiences of successful development strategies. The preparation for WTO membership and the development of negotiation strategies of existing members of the WTO and ACP members may also be assisted by collective efforts.

Although cooperation between countries in the region is likely to make the most of available resources, the differences between the countries means that, where necessary, some agricultural development strategies need to be developed separately by each country or, where possible, between two or more countries facing similar challenges. What is clear is that different strategies need to be developed to address different development issues across the region.

Burundi

WTO: member
Status: LDC
ACP: member
Population: 6.8 million
Population growth rate: 2%
GDP growth rate (2000): 0.3%
Percentage population in agriculture: 90.8
Agriculture as percentage of GDP: 50

Main food crops

Banana and plantain • Sweetpotato • Cassava • Maize • Beans • Sorghum • Taro • Rice • Peas
Potato • Millet • Groundnut • Wheat • Yam

Main cash crops

Coffee (arabica) • Tea • Cotton • Palm oil • Palm Kernel • Pyrethrum • Tobacco

Added-value agricultural products

Beer • Soft drinks • Cigarettes • Textiles

Agriculture and the economy

Burundi is potentially self sufficient in food production through subsistence farming. Civil unrest affected the country throughout the 1990s. The abolition of its constitution in 1996 resulted in trade sanctions. These factors caused its economy and agricultural output to shrink by 25%. Poverty has increased by 80% in rural areas over the past five years. Hundreds of thousands of displaced refugees are fed by outside agencies. Some stability has been achieved since 1999 when sanctions were suspended but the country remains heavily dependent on foreign aid in the form of emergency credit and humanitarian assistance. There has been negligible foreign investment in the country during the last decade.

Development agencies have identified health, water supply, and agricultural rehabilitation as priorities for emergency aid. Coffee (90% arabica) represents two-thirds of country's exports making it extremely vulnerable to the continued fall in the international coffee price.

Democratic Republic of Congo

WTO: nonmember
Status: LDC
ACP: member
Population: 51.4 million
Population growth rate: 3%
GDP growth rate (2000): –4.3%
Percentage population in agriculture: 90.8
Agriculture as percentage of GDP: 50
Percentage of population in agriculture: 57
Agriculture as percentage of GDP: 53.1

Main food crops

Maize • Cassava • Groundnut • Banana and Plantain • Rice • Sweetpotato • Yam • Beans • Sorghum • Millet • Potato • Peas • Taro • Wheat

Main cash crops

Sugar • Cotton • Coffee (arabica) • Tobacco • Palm oil • Palm Kernel • Rubber • Cocoa • Tea

Added-value agricultural products

Brewing • Textiles

Agriculture and the economy

The Democratic Republic of the Congo has a high potential for achieving significant economic success. Agricultural development is not restricted by land availability or rainfall. The country is rich in minerals (copper, cobalt, tantalum, diamonds, gold, and petroleum). A succession of poor and corrupt governments, leading to massive conflict involving several other African countries, has led to economic collapse. The DRC now produces insufficient food to feed its population and food imports amount to 125 000 tonnes per year.

Agriculture has a big potential in DRC but production is constrained by civil war, transport problems, and inflexible pricing policies. Half of all agricultural production comes from subsistence farming but most of its main export crops are grown on plantations. The forestry sector is being developed with aid donations.

Rural development, transport, and natural resource management have been identified as development priorities. Development agencies are undertaking capacity-building programs including public sector reform as a prerequisite for any further structural development.

Eritrea

WTO: nonmember
Status: LDC
ACP: member
Population: 4.1 million
Population growth rate: 2.7%
GDP growth rate (2000): 6.5% (after –12.6 in 1999)
Percentage population in agriculture: 70
Agriculture as percentage of GDP: 9.3

Main food crops

Sorghum • Potato • Barley • Millet • Wheat • Maize • Chick pea • Beans • Lentils • Peas

Main cash crops

Sesame • Linseed

Added-value agricultural products

Beverages • Leather goods • Textiles • Canned goods

Agriculture and the economy

Eritrea has made good economic progress since the end of its war for independence in 1993. The war, however, ravaged the country's infrastructure and degraded farm land. Despite these costs, the government introduced sound management to the public sector and showed determination to develop agriculture, manufacturing, and services in a diversified economy. Public industries were privatized and inward investment increased. The country was particularly successful in combating corruption and land was nationalized to make farming leases available. The country has a significant potential to expand its fishing industry, gas and oil production, and tourism.

In 1998, a war broke out with its neighbor after a small territorial dispute and lasted for two years. This war has had the effect of reversing economic and political progress. The loss of port revenues for Ethiopian trade and the displacement of population have had a particularly negative effect on the economy. These problems have been compounded by a relapse into more authoritarian executive rule.

Although a high proportion of the population is engaged in farming, agriculture is unlikely to make the major contribution to the overall development of Eritrea's economy. Development agencies have identified road building, water management, and the provision of microcredit as priorities for improving agricultural performance.

Ethiopia

WTO: nonmember
Status: LDC
ACP: member
Population: 64.3 million
Population growth rate: 2.6%
GDP growth rate (2000): 5.3%
Percentage population in agriculture: 79
Agriculture as percentage of GDP: 52.3

Main food crops

Sorghum • Barley • Millet • Wheat • Maize • Teff • Beans • Lentils • Peas

Main cash crops

Coffee • Cotton • Sugar • Hides and Skins • Flowers

Added-value agricultural products

Textiles • Handicrafts • Leather goods

Agriculture and the economy

Food production in Ethiopia is of special strategic importance. The country's high population and precarious rainfall means that it is especially vulnerable to food shortages leading to mass starvation. Only two-thirds of cultivable land is farmed, however, and only 6% irrigated. Soil erosion caused, in part by intensive subsistence cultivation, represents a serious problem in some areas. Cereal production fell by 7% in 2000 to 7.8 million tonnes—less than is needed to feed the population. Coffee represents almost two-thirds of exports (Germany is a major importer) and the historically low coffee price has massively reduced potential export earnings. Horticulture and flower production are seen as potential growth industries in the cash crop sector. Ethiopia had massive herds of livestock but exports of camels and cattle have been hit hard by a ban on imports of Ethiopian livestock by Saudi Arabia due to an outbreak of Rift Valley Fever. Ethiopia has the lowest per capita exports in the world.

The Ethiopian economy has improved markedly since the ending of a command economic strategy in 1993. The government ended price controls, reduced taxes, and removed many private-sector restrictions. Recent economic growth is attributed to agricultural output recovery.

Kenya

WTO: member
Status: DC
ACP: member
Population: 30.1 million
Population growth rate: 2.4%
GDP growth rate (2000): – 0.2%
Percentage population in agriculture: 50
Agriculture as percentage of GDP: 30

Main food crops

Maize • Sorghum • Cassava • Beans • Fruit

Main cash crops

Tea • Coffee • Sugar • Cotton • Pyrethrum • Sisal • Tobacco • Pineapple

Added-value agricultural products

Kenya is the only country in the region producing a full range of added-value agricultural products including: textiles, soap products, canned goods, brewing and distilling, oil extraction, leather ware, and packaged goods for retail including coffee, sugar, and tea. Many goods are made under licence. Packaging, presentation, and quality fall short of international standards for some products.

Agriculture and the economy

Kenya is the richest country in the region and has enjoyed several decades of relative stability. The country also has a relatively diversified economy although manufacturing still represents only about 15% of GDP. The Kenyan economy grew steadily from independence as the government encouraged inward investment and competition. Import and export licensing was abolished and the exchange rate was allowed to float freely. Many state enterprises have been privatized and the public sector now plays only a minor role in production and distribution. In the 1990s, the economy began to falter and investments and savings fell. In recent years, international backing has been frozen due to the failure of the government to implement anticorruption strategies. The government was also considered to have mismanaged public resources and development assistance. Although subsistence farming still represents half of agricultural output, the agricultural sector includes many large-scale commercial farms, plantations, and specialist horticultural units. Agricultural growth has been restricted, however, due to shortages in arable land, lack of irrigation, poor supply of seed, recurrent drought, and inadequate storage facilities. Land shortages have provoked some farm occupations but nothing near the scale of occupations in Zimbabwe. Domestic food production now fails to meet local demand and in 2000, food imports amounted to 4.5 billion Kenyan shillings.

Horticulture and flower production have been growth industries and now represent Kenya's second largest export commodities. Smaller producers of these products situated further away from the main markets have difficulties selling their output in times of plentiful

supply. Sugar production has been hit by the massive dumping of imports and local production now fails to meet local demand. There is now reduced state control of grain markets. Cooperatives and private-sector producers represent 20% of the market, which has stimulated grain production. Maize imports are restricted by a 25% import tariff. The low price of beans has encouraged imports from lower cost producers in Ethiopia, Tanzania, and Uganda.

Coffee production has been disrupted by clashes between rival farmers over management of cooperative societies. The Coffee Board of Kenya has been accused of imposing high costs on producers and it now separates its research and disease control activities from marketing. Thirty percent of coffee production costs go into disease control, which may be alleviated by the introduction of the new RUIRU 11 resistant variety.

Kenya produces 200 000 tonnes of tea per year but production is subject to frost damage. The UK and Pakistan are the largest customers but there has been a dispute with Egypt recently over import duties. Smaller tea producers are adversely affected by poor processing equipment and inadequate roads, which has led to high levels of wastage.

Madagascar

WTO: member
Status: LDC
ACP: member
Population: 15.5 million
Population growth rate: 3.1%
GDP growth rate (2000): 4.8%
Percentage population in agriculture: 75
Agriculture as percentage of GDP: 31.6

Main food crops

Rice • Coconut • Maize • Banana • Sweetpotato

Main cash crops

Vanilla • Cotton • Sugar • Cloves • Prawns

Added-value agricultural products

Textiles • Brewing • Canning (meat, fruit, and vegetables) • Vegetable oil

Agriculture and the economy

The economy of Madagascar grew very slowly between independence in 1960 and the introduction of multiparty democracy in 1990. Since then the government has introduced more pragmatic economic policies including bank reconstruction and privatization of air transport, telecommunications, and petroleum. GDP grew by an average of 4.3% between 1997 and 2000 but the country is still very dependent on foreign aid. The staple food is rice but production is regularly reduced by floods, drought, and cyclones. Many farmers have ceased to grow coffee since the collapse of the coffee price and have grown rice instead. This has increased production by about 5% making Madagascar self-sufficient in rice for

the first time since the 1970s. Parastatal enterprises controlling vanilla, sugar, and cotton have been disbanded with the objective of encouraging investment in the production of these products. Mauritius has invested recently in cotton and textile production, which is seen as a growth industry. Clove and vanilla export revenue has been hit badly by a fall in the world price due to the encouragement of new production in other countries by multilateral development agencies.

Agricultural development is restricted by poor roads and run-down railways and ports. Only 1.5% of farmers has access to credit and only 5% of credit goes to agriculture. Tenure and landholding rights are ill defined. Under grants and loans made available through the US Growth Opportunity Act, the textile industry is likely to create 70 000 jobs in coming years.

Rwanda

WTO: member
Status: LDC
ACP: member
Population: 8.5 million
Population growth rate: 5.2%
GDP growth rate (2000): 5.2%
Percentage population in agriculture: 90
Agriculture as percentage of GDP: 44

Main food crops

Sorghum • Plantain • Maize • Sweetpotato • Rice • Wheat • Beans

Main cash crops

Coffee • Tea • Hides and skins

Added-value agricultural products

Brewing • Cigarettes

Agriculture and the economy

As with the other countries in the region, which have suffered years of intense conflict, Rwanda's economy has been virtually destroyed. Tribal conflict has erupted several times since 1959 culminating in deaths of hundreds of thousands of citizens in 1993. The country is almost entirely dependent on emergency grants and a postconflict reconstruction plan financed by international donors. In 1998, the government agreed on an enhanced structural adjustment facility and, with the onset of relative peace, the economy has improved somewhat. The agricultural sector suffers output fluctuations due to periodic drought, and the heavy dependence on coffee in the cash crop sector has diminished earnings as the international coffee price continues to fall.

Sudan

WTO: nonmember
Status: LDC
ACP: member
Population: 29.7 million
Population growth rate: 2.1%
GDP growth rate (2000): 8.3%
Percentage population in agriculture: 80
Agriculture as percentage of GDP: 45

Main food crops

Sorghum • Millet • Groundnut • Dates • Cassava • Wheat • Beans

Main cash crops

Gum arabic • Cotton • Sesame seed

Added-value agricultural products

Textiles

Agriculture and the economy

Sudan has suffered a civil war in the south of the country since before independence in 1956. At present the rebels control much of the southern part of the country but are in negotiation with the government. The war has stunted economic development due to military expenditure, social dislocation, deteriorating infrastructure, and lack of access to aid and investment. Since the lessening of intensity of the conflict in 1996, the government has taken some steps to reform the economy by containing fiscal deficits, liberalizing trade and the exchange rate system, phasing out price controls, and privatizing some public sector enterprises. The country cannot service its debt but has reopened relationships with multinational donors and development banks. Most aid has been in the form of humanitarian assistance and disaster relief. Since 1996, GDP growth has averaged 5.5% led by agriculture. Inflation rates have fallen over the same period.

Food security remains the main objective of agricultural development as agricultural output is significantly affected by adverse climatic conditions including drought and floods. Domestic food output and food imports combined are not sufficient to meet the needs of the population and large numbers of people are undernourished. Food shortages have given rise to mass migration and the WFP "Food for Work" program in the Sudan has increased dramatically.

Only an estimated 5% of available arable land is cultivated and less than 1% irrigated. Several irrigation schemes are being initiated and the government would prefer that these were used for food production rather than for the production of cash crops. Millet and wheat production are subject to wide swings in output depending on climate conditions in the growing season. Fishing is seen as a potential growth industry.

Sudan is heavily dependent for its exports on gum arabic, which accounts for 45% of export revenue. Many traditional uses for the gum such as label adhesives have been replaced

by synthetic substitutes. The gum is still used in some confectionery, however, and its use in printing is increasing.

Tanzania

WTO: member
Status: LDC
ACP: member
Population: 33.7 million
Population growth rate: 2.6%
GDP growth rate (2000): 5%
Percentage population in agriculture: 80
Agriculture as percentage of GDP: 50

Main food crops
Rice • Maize • Cassava

Main cash crops
Coffee • Cotton • Tea • Tobacco • Cashew nut • Sisal • Cloves • Honey beeswax

Added-value agricultural products
Textiles • Leather

Agriculture and the economy
In 1986, Tanzania embarked on an economic recovery program followed by an Economic and Social Action Program in 1989. Both programs were sponsored by the World Bank and IMF. Within these programs state controls were dismantled, the private sector promoted, the trade and the exchange rate system liberalized, price controls eliminated, and most state monopolies privatized. Development priority was given to roads, railways, and ports. The economy expanded from 1986 to 1994 after a long period of stagnation but deteriorated again from 1995 to 1996. The setback was attributed to worsening macroeconomic management and development assistance was withdrawn. Aid was reinstated after the government committed itself to further reform and the economy began to improve again.

Tanzania remains one of the world's poorest countries, however, partly because of its heavy reliance on the agricultural sector, which has been hit hard by adverse climatic conditions and falling market prices. Agricultural development is constrained by lack of irrigation and only about 15% of available arable land is cultivated.

The country produces one quarter of the world's cashew nuts but exports a significant proportion of them in the unprocessed form to the Indian subcontinent for shelling. Some shelling takes place in the country but the industry was set back by the introduction of inappropriate high-tech equipment. Small-scale cashew nut producers have benefited from a return to a system where they can bargain directly with buyers. The sisal market has suffered a long-term decline due to competition from synthetic fibers for use in bags and ropes. Tanzanian production has fallen from a quarter of a million tonnes a year in the 1960s to around 35 000 tonnes. The clove industry, representing the bulk of Zanzibar's exports, has

suffered after the collapse of the price when Indonesia, the world's largest importer, was assisted to become self-sufficient in supplies. There has been a serious decline in coffee and cotton production as the price of these commodities also fell. Production of tobacco, tea, cashew, and horticultural products has risen, however, in recent years.

Uganda

WTO: member
Status: LDC
ACP: member
Population: 22.2 million
Population growth rate: 3%
GDP growth rate (2000): 4.4%
Percentage population in agriculture: 80
Agriculture as percentage of GDP: 42

Main food crops

Banana • Maize • Cassava • Beans • Sweetpotato • Sorghum • Millet

Main cash crops

Coffee • Cotton • Tea • Sugar • Sesame seed • Flowers • Spices • Tobacco

Added value agricultural products

Dairy products • Brewing

Agriculture and the economy

Uganda returned to stability in 1986 after many years of violent turbulence and still suffers from sporadic conflict. In 1987, the government embarked on an economic recovery program aimed at restoring fiscal discipline, rehabilitating the infrastructure, and boosting export earnings. Investment incentives were increased and the exchange rate system reformed. Foreign investment increased and coffee production boomed. The country achieved an economic growth rate, which averaged 7% for a decade. Growth has been curtailed somewhat in recent years mainly due to the fall in commodity prices. Uganda remains heavily indebted but due to its macroeconomic reforms, the country has benefited from the Heavily Indebted Poor Countries Initiative for debt relief.

The agricultural sector has been hampered by input shortages, poor rural roads, occasional drought, and low producer prices. The country has a wide diversity of climatic and soil conditions which allow for the production of a large range of different crops. Most production is small scale but sugar and tea are grown on large plantations. Uganda is now the largest coffee producer in Africa. The industry has been liberalized and 90% is controlled by the private sector. Small-scale producers are now able to deal directly with buyers but this has made them more vulnerable to price fluctuations and unscrupulous traders. Less cotton is produced now than in the past again due to low prices but also to high costs and security problems in the growing areas. A small horticultural and flower sector is emerging and is seen to be a growth industry.

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Annex I. The Globalization Debate

Globalization hurts workers

Critics. Labor is negatively affected when workers in richer countries are made redundant and jobs are made available at lower wages to people in poorer countries, thus overall, reducing payment to workers and exploiting the poor to increase profits for shareholders, with no benefit to consumers. Examples of this include slave and child labor and sweat shops producing high profile, luxury retail products.

Advocates. Sweatshops are being regulated against and tagging/tracing systems are being formalized in importing country legislation to protect the rights of workers overseas. The vast majority of workers that are made redundant in rich countries find other sources of employment and the income shifted to poorer countries provides sustained income for people who previously did not have such good terms and conditions. If new industrial ventures in developing countries prove to be successful, such activities attract greater investment and this increases both income and skills in the recipient countries.

Globalization especially hurts the poor

Critics. Globalization is a process through which the rich get richer and the poor become poorer. A recent report by the World Bank on income disparities between households, found there was evidence that the gap between rich and poor is widening. Between 1988 and 1993, the poorest 5% lost almost 25% of their incomes whereas the incomes of the richest 5% grew by 12%. More than 1 billion people (20% of the global population) live on less than $1 per day and this figure is increasing, whereas there are now 358 dollar billionaires and this elite club is likely to increase. The report concludes that the middle class in many developing countries is disappearing and that the increasing gap between rich and poor in developing countries may lead to the collapse of nations.

Advocates. According to studies by economists from Harvard and the World Bank, it has been shown that increased export trade and engagement in the process of market liberalization have been the main factors in increasing wealth across the world. Over the past 40 years, the poor have benefited considerably in most countries and particularly in developing countries. Although skeptics refute this argument on the basis that regression analysis is too easily manipulated, advocates claim there is growing, irrefutable evidence to show that globalization has had a net positive affect on the income of all, both the rich and the poor, in all of those countries that have embraced the globalized market system. Advocates further argue that there has been no other system, which has achieved such rapid rates of poverty alleviation as this latest round of global market reform. Advocates concede that the notable exceptions to this rule are some of the African countries where growth is not evident and it is argued that this has been because governments have neither embraced market reforms nor supported globalization and their peoples have therefore been excluded from the benefits.

The fallacy of composition locks in poverty

Critics. The structural adjustment programs developed by the IMF/WB have given the same advice and investment programs to many competing countries and this "One-fix-for-All" approach has led to oversupply and catastrophic falls in world market prices of the traditional agricultural cash commodities, including coffee, cocoa, cotton, copper, timber, etc. Africa has responded to the IMF policies by increasing exports of agricultural goods by 30% over the past 20 years, yet the value of these goods has fallen by more than 40% and according to market analysts, prices are likely to fall further. Not content with current levels of falls in commodity prices, these same countries are now being encouraged to increase productivity in order to offset lowering export revenues and this is simply increasing poverty, debt, and dependence on donors. Unlike industrial oversupply, which can be adjusted by closing a factory or producing something else, small-scale farmers in Africa are tied to the production of crops such as coffee and will continue to produce no matter how low the price.

The new advice for developing countries is to increase their competitiveness and increase efficiency through raising productivity levels or to diversify their production range. Many countries may be willing to attempt this new hurdle but increasing competitiveness may prove difficult for LDCs that lack infrastructure, have major debt responsibilities, face falling terms of trade, and due to high budgetary donor support, have distorted currency values. The combination of these factors locks in both poverty and dependence and the prospects of the "Dutch disease" loom large, whereby budgetary support makes the currency uncompetitive for export markets and yet the country is unable to make economic progress when budgetary support is removed (check mate).

Countering the problems within the commodity markets needs a consideration of a broader approach to market engagement including options such as (i) greater private–public sector management of the supply of commodities onto the global markets, (ii) greater attention to import substitution (ISI), (iii) more stringent policies against dumping, (iv) Food Aid purchased through regional trade rather than Organization for Economic Cooperation and Development (OECD) imports, (v) increased market access to Europe and the United States, and (vi) a more rapid reduction/removal of agricultural subsidies and tariffs in Europe and the United States.

Although the current economic climate is unlikely to embrace global market intervention wholeheartedly, there is considerable merit in developing mechanisms which can improve global commodity prices through systems that match supply with demand more effectively. Higher commodity prices will improve equity in regard to the benefits of global trade and achieve the development goal of supporting the poorest of the poor. ISI will also reduce the terms of trade favorably.

Advocates. The fallacy of composition is a short-term producer problem; over time the most competitive countries will gain a larger market share through increased efficiencies in productivity; uncompetitive producers will fall out. Those countries that are dependent upon a narrow range of commodities but are unable to compete in the global market should invest in programs for both horizontal and vertical diversification. Greater competition

raises quality standards, reduces prices, and is therefore good for consumers and should be encouraged. Managing markets has proven difficult to implement and is a breeding ground for unfair practices. Cartels tend to fold when problems arise and leakages in the system mean that some gain unfair advantage at the expense of those following the rules. Although the theory of ISI is sound, there is ample evidence that this policy runs into problems in practise and is highly vulnerable to problems associated with poor governance. In countries which have adopted this strategy, there is a tendency to build large bureaucratic systems that are not accountable, that cannot be removed, and due to vested interests, become the property of an elite few.This process is highly prone to corruption and problems associated with ISI are manifest in countries, which have large national debts and negligible growth.

Globalization supports agricultural trade for the rich at the expense of the poor

Critics. Whilst African farmers are being asked to open their markets to free trade, they face direct competition from subsidized exports, donated food and inputs, dumped food and inputs, and monetized food aid, and yet they are also marginalized on the international market by tariffs, an increasing raft of Sanitary and Phytosanitary (SPS) conditions, and technical barriers to trade (TBT). On the other hand, farmers in the EU and USA are enjoying the benefits of increased farm subsidies and reduced competition due to the effects of upgrading quality requirements for food products, which is preventing inflow from developing countries. The Marshall Plan for Africa would be to find ways of reducing OECD farm subsidies and supporting farmers in Africa to supply these markets. This approach would both enhance global trade and reduce poverty. Unfortunately, the counter is being done, OECD agricultural subsidies are currently running at approximately $350–400 bn per annum and tariff controls are being manipulated to serve the interests of domestic farmers and traditionally linked partners.

As commodity dependent LDCs face falling terms of trade, the OECD countries are failing to increase their aid programs. A recent UK initiative, led by Chancellor Gordon Brown, which proposed to increase the level of overseas aid through raising donor support to the UN target of 0.7% of Gross National Income, was blocked by the US Government. The major league donors currently are France (0.32%), UK (0.32%), Japan (0.28%), Germany (0.27%), Canada (0.26%), Italy (0.13%), and USA (0.1%). Aid agencies further argue that another UN-led initiative to increase aid levels also met with skepticism from Mr P. O'Neill, US Treasury Secretary, who argued that international aid is ineffective, and that the money donated is wasted by corrupt and ineffective governments.

Advocates. Removal of farm subsidies by OECD countries is written into the WTO agreements and will be negotiated over the next 10 years (Chapter XX). There are also new interim trade thrusts such as the EU "Everything but Arms" and the US "African Growth Opportunities Initiative" which is opening new market opportunities for African commodities at zero tariff levels for LDCs (Chapter XX). Aid levels for agriculture are being discussed and US Agency for International Development (USAID) has recently made a

proposal to the Senate calling for significantly increased support to the agricultural sector in sub-Saharan Africa. These measures are the components of a trade-based approach to developing more equitable world markets.

Globalization supports militarism over civil society

Critics. Western governments maintain rhetoric for reducing conflict and arms control, but consistently increase their support to both their own military industries and trade in weapons to LDCs, rather than increasing services in health, education, and agriculture that support the needs of the poorest people. The current USAID budget for sub-Saharan Africa is less than $5bn, whereas the current annual military budget has just been raised to $400 bn. Of late, sales of armaments from western governments such as the UK have increased, with multimillion dollar military contracts being awarded to countries that can only translate unnecessary technology into increased debt. These decisions and choices give a clear indication of the priorities held by western governments in terms of their own investment plans and their lack of urgency in reducing poverty.

Advocates. The US is the sole remaining superpower and must have the military strength to maintain that position. New developments in conflict call for smarter weaponry and the ability to make rapid precision strikes that limit collateral damage and maintain US losses to a minimum. Developing and deploying this type of military capacity is extremely expensive, but the United States Government is committed to ensuring that the United States military industry is at the cutting edge of new technology and strategy development. Increased sales of military technology and armaments to countries in developing countries is a complex issue, however all nations have a sovereign right to protect themselves from aggressing nations. As many countries in Africa are politically fluid, the demand for defense technology is commensurately high.

Globalization is undemocratic

Critics. It is suggested that globalization is causing a shift in power from governments to a few multinationals, which is diminishing the power of governments. According to Noreena Hertz, in *The Silent Takeover,* 51 of the 100 largest economies in the world are now corporate and this rise in financial power means that governments are becoming less important than the super corporations. Harvard's Dani Rodrik suggests that owners of capital are able to shift to lower tax areas, thereby reducing the tax base and the ability of governments to finance social programs, have safety nets, and redistribute income via welfare state programs. This process is therefore undermining democracy.

Advocates. The counter argument suggests that the ability to shift income is good as it reduces the ability of governments to be oppressive. If a person is no longer satisfied with a government, in an extreme case, he or she can leave. In this case, globalization is an ally of human rights, although it may not be a close friend of the labor unions and the welfare state.

Globalization is neutering politics

Critics. It is argued that the current levels of indifference in politics are being caused by globalization and that disinterest is based on the public perception that voting has been devalued as governments have already had their policies decided by the needs of the multinationals. Over the past 10–20 years, the differences between political parties has converged dramatically and now it is often difficult to differentiate the former left from the right. Politicians are effectively forced to adopt a common macroeconomic orthodoxy to encourage and maintain a pro, large-scale, private-sector investment climate. Whilst it means that the conditions for growth are enhanced, this requirement leaves politicians with little room for maneuver and therefore prevents their ability to effect change through more socially oriented methods.

Advocates. Friedman describes the process of adopting probusiness, macroeconomic policies, as the "Golden Straightjacket" as it forces government to adopt promarket reform policies. While radicals suggest that modern politics is simply cowed to the marketplace, globalists argue that this political homogenization is relatively healthy and that basic economic rules are required for growth. Globalists are of the view that the public is in favor of policies that promote growth and would not vote in governments that seek unbalanced budgets, radical taxation programs, heavy regulation, and nationalization.

Globalization lacks control

Critics. It is argued that the lack of a global bank and global financial institutions will lead to a melt down in the system. Rodrik writes, "If it was the 19th century that unleashed capitalism in its full force, it was the 20th century that tamed it and boosted its productivity by supplying the institutional underpinnings of market-based economies. Central banks to regulate credit and the supply of liquidity, fiscal policies to stabilize aggregate demand, antitrust and regulatory authorities to combat fraud and anticompetitive behavior, social insurance to reduce lifetime risk, political democracy to make the above institutions accountable to the citizenry—these were all innovations that firmly took root in today's rich countries only during the second half of the 20th century. That the second half of the century was also a period of unprecedented prosperity for Western Europe and the United States, Japan, and some other parts of Asia is no coincidence. These institutional innovations greatly enhanced the efficiency and legitimacy of markets and in turn drew strength from the material advancement unleashed by market forces… The dilemma that we face as we enter the 21st century is that markets are striving to become global while the institutions needed to support them remain by and large national. The desire by producers and investors to go global weakens the institutional base of national economies". This dilemma relates to the problems associated with the backlash to the first round of globalization and suggests that global legislative organizations are required to offset the lack of safety nets and redress in the system.

Advocates. There is no consensus on this issue at present, but if the process of trade consolidation continues through the expansion and increased harmonization of trade between the European bloc, the Americas bloc, and the Asia bloc, then it seems not unreasonable that

agencies such as the WTO and IMF may also evolve into global forces for supporting greater efficiency in global trade and tempering the less desirable effects of global capitalism.

The Washington Consensus is a conspiracy

Critics. It is argued that the world is increasingly polarizing around the group who have political and economic power and the poor who simply don't have enough liberalization. The term "Washington Consensus" first coined by John Williamson in 1989, refers to the decisions and policies made to assist the poor by a small number of unelected bankers, particularly the World Bank and the IMF with the support of the United States Government. The Washington Consensus particularly relates to the major policies including measures to promote trade, increased foreign direct investment (FDI), but also fiscal discipline, i.e., smaller budget deficits, fewer subsidies, tax reform, liberalized financial systems, competitive exchange rates, privatization, deregulation, and measures to ensure property rights. In the view of many skeptics this neoliberal agenda has been deliberately designed to serve the needs of the poor at the expense of the poor. Privatization and industrial deregulation has a similar effect in that it delivers windfall profits to domestic and foreign investors but strips the state of its assets and weakening rules that protect consumers and workers. These policies are forced on poor countries regardless of their views and at the same time saddles the poor with crippling debts. Increasing debt exposes countries to shocks in the global business cycle as experienced in Argentina, Asia, and Mexico. These cycles of debt and instability increase the dependence of poor countries on aid and enable the IMF, the World Bank, and the US Treasury to force ever more restricted options based on the needs of American bankers. Sub-Saharan Africa's foreign debt rose from $60 bn to $206 bn over the past 20 years, despite the debt repayments of $229 bn due to the effects of compound interest rates and the costs of SAPs. Over the past three years, debt repayment by sub-Saharan African countries was $16 bn greater than incoming loans. Absurd as it may sound, the stakes are high and many view this cycle of dependence to be a deliberate conspiracy to oppress developing countries.

Advocates. The role of the major players in development, such as the World Bank, the IMF, and trade-based organizations such as the WTO is not those of would-be tyrants. These organizations strive to make decision making as transparent and democratic as possible and teams of highly professional, development-oriented staff constantly analyze the merits and demerits of specific types of investment to support (through grants and loans) the economies of poor countries. The mission statement of the World Bank is a "World free of poverty" and there is considerable evidence that the works implemented by the World Bank, the IMF, and its numerous development partners have significantly reduced poverty and improved the living conditions of millions of people over the past 30 years. Despite the rhetoric, there are some clear lessons to be learnt, i.e., firstly that foreign capital is a mixed blessing, that trade-based investment can increase growth quickly, but it can also lead to rapid debt when there is volatility in the marketplace. Acceptance of FDI is generally a catalyst for growth although it can be argued that it is more expensive over the long term as profits and therefore remittances are often higher than banks'. Loans, whether for

long-term projects or short-term bank debt, are also highly attractive to the development process and maintenance of stability, but these can also induce severe problems when combined with poor regulation, corruption, or a lack of a clear strategy in the use of the finance. Widespread domestic borrowing from local banks, based on foreign capital has also led to desperate situations in developing countries where capital controls have been abolished. Although done with good intentions, these types of problem suggest greater moderation related to in inflows of capital by borrowers.

In addition to the policy aspects, the IMF is particularly criticized for sending in teams of experts to balance budgets and commanding governments to cut public expenditure that assaults the poor. Unfortunately, the IMF is an institute of last resort and generally the IMF is only called in when the situation is critical. The policies implemented through the IMF are typically harsh, but would not be as harsh as those which would need to be enforced by the government in the absence of the Fund.

On balance, it is fair to say that the IMF and the WB have made mistakes and in hindsight certain policies may not have met with expectations. However, many successes are also evident and countries desperately need support from these institutions in their hour of crisis.

Critics suggest that as most developing countries have access to global capital markets, the Bank should now focus more on the dissemination of knowledge rather than money and should focus more on liquidity during emergencies rather than development finance subject to simple financial controls rather than developing detailed policy blueprints. In many respects one must consider that, despite making mistakes, these institutions play an enormously important role and a world without the World Bank, the IMF, and the support of donor countries would be unthinkable. Improvement is a constant quest and informed analysis from all parties and viewpoints enriches these organizations.

Annex II. Futures markets

Several ECA products are traded on one or other of the world's many futures markets. These are sugar, coffee, cocoa, palm oil, cotton, maize, potato, sorghum, castor oil, jute, and rice (although most of them are not likely to be of use to most African traders or farmers). Futures markets can be understood as a link between financial institutions and the commodity trade. Their origins date back to the nineteenth century when merchants needed to finance their commodity trading with money from banks and investment funds.

The futures market can be used to help some of the larger actors in the markets to obtain credit and to reduce risks associated with unpredictable, short-term fluctuations in the market price. For this reason UNCTAD and the World Bank have established programs to assist larger actors in the agricultural sectors of developing countries to learn about futures markets and to use them if it is appropriate for them to do so.

Futures markets also give a reference price to a commodity at any given time.

In a futures market, the seller promises to sell a certain quantity of a certain commodity at an agreed price, delivered to a specific location to the buyer at a specific date in the future. The buyer might be a consumer of the commodity who wishes to cover their needs for that future date. On the other hand, the buyer might be a bank, financial institution, or private individual that wants to make a speculative purchase because they believe that the price of the commodity will rise before the date agreed for delivery. They hope to sell the commodity at a profit before they are required to take delivery of it.

The seller may also be a banker or investor. They would have taken the view that the price will fall before the agreed delivery date. They will have promised to deliver the goods even though they do not yet own them. If they are right, and the price does fall, they can buy the goods through the futures market nearer the delivery date at less than the price they have promised to sell them at and make a profit.

Most of the buyers and sellers on the futures markets never actually see the commodities in which they trade. For them, the market is just a means of making money. Consumers and producers are able to use these markets to their advantage, however. One useful aspect of a futures market for consumers and producers is its facility to provide a means of hedging a purchase or a sale. But what does the word "hedging" mean and why can it be useful?

Hedging

Many commodities markets are very volatile—prices go up and come down unpredictably. This makes life difficult for consumers. Let us take the example of a chocolate producer who needs to make a sales contract with a supermarket chain to sell millions of chocolate bars at a fixed price for the whole of the following year. Nobody knows what the price for cocoa is going to be at the time he needs to buy the cocoa to make the chocolate. On the futures market, however, he can find a seller who is willing to supply cocoa at a fixed price for the delivery date he needs. If the price goes up on the world market, the buyer still gets his cocoa at the price agreed with the futures market seller. This type of transaction is known as hedging.

In practice the cocoa buyer, in this example, will only make paper transactions on the futures markets. Although futures markets theoretically allow for delivery of real commodities from the seller to the buyer, it is not their principal purpose and it rarely happens. In this example, the cocoa buyer will sell back the cocoa to the futures market at about the same time he needs physical delivery of the cocoa, and make a profit (since the price has gone up since he bought it). He will simultaneously purchase the same amount of real bags of cocoa, say from Ghana, and, although the price he will pay for this cocoa will be higher than the price he paid for his original purchase on the futures market (again because the price has gone up in the meantime), the difference will be covered by the profit he makes on the futures transactions.

If the price falls rather than rises in this period, the cocoa buyer will make a loss on his transaction on the futures market but be able to buy the physical cocoa from Ghana at the lower, prevailing price. So whether the world market price goes up or down, the buyer has managed to buy his forward requirements of cocoa at a fixed price, which enables him to sell his chocolate bars to the supermarket chain at a fixed price.

Producers of commodities also use futures markets for hedging. They can make forward sales at fixed prices and use the sales contracts as collateral to borrow money from the banks to finance their production costs. They may also wish to hedge if they feel that the price of the commodity they produce will fall before they can deliver it to a customer.

Buyers are not required to pay the total value of a purchase they make on the futures markets at the time the purchase is made. The buyer is required, however, to pay what is called a margin. This may only be a few percent of the value of the purchase, but the exact sum payable depends on the particular commodity and futures market used. If a buyer has bought a commodity on the market and its price falls between the time of purchase and the agreed delivery date, however, the buyer will be asked for a "margin call". This means that he has to pay an extra sum of money, which would equal the loss he would make if he sold his purchase at the prevailing market price. If the price continues to fall, he will be asked to continue covering this potential loss with more margin calls. All these sums of money, plus any interest they earn, will be taken into account when the transaction is finalized.

Options

Other devices for hedging on futures markets are available to commodity producers and consumers. These are known as options—a form of a transaction called "derivatives" on futures markets. To describe the function of an option, let us take the case of a large coffee producer or trader who wants to fix the price of a future shipment of coffee beans. He can purchase what is called a "put-option" on the futures market covering a sale of the quantity of coffee he expects to have for sale, say, in six months time. Buying the put-option is really buying the right to sell at a fixed price for that date but still retaining the right not to sell if the price in the intervening time increases above that fixed price. The cost of the option is known as the "premium" and the cost of the premium varies according to the option seller's perception of the risk involved. This perception is often based on the previous record of price volatility of the commodity concerned but is usually a few percent of the price.

The advantage of buying put-options as a means of hedging for sellers is that they can insure against a large fall in the future price of the commodity. At the same time, however, they can retain the option of canceling the option (thus losing the premium) and selling at a higher price if the price of the commodity significantly increases. The disadvantages are that premiums can be expensive and that the market must be continuously scrutinized in order to decide whether to retain the option or cancel it. It should also be said that using these devices often encourages unwise speculation.

Using futures markets

Buyers and sellers are not able to trade directly in the futures markets. They have to use the services of brokers who are specialist dealers and members of the market in question. Only they are allowed to transact business in that market, but they act on behalf of many clients, buying and selling on the futures market according to their clients' instructions. In most futures markets, brokers are also allowed to deal on their own account. This has led to a conflict of interests on some occasions, and clients should be wary of taking their broker's advice regarding whether they think the market is going up or down, unless they know and trust the broker very well.

Buyers and sellers who wish to use futures markets must pay their brokers a commission fee on each transaction they make. This fee varies according to which market is used, what commodity is traded, and the size of the transaction, but it is usually a fraction of one percent of the value of the transaction. The broker, who is also responsible for setting and collecting margins and margin calls, is only likely to do business on behalf of clients that they know are able to meet any financial commitment they make. For this reason they only accept clients with good financial references.

Futures markets do not allow trades of less than a certain minimum quantity or "lot" of any given commodity. The value of one lot usually exceeds US$10 000, so only those interested in hedging or investing on a large scale can make use of the market.

The volume of trade in a commodity has to be very large indeed for it to be worth setting up a futures market to trade in it. Furthermore, only commodities whose qualities can be objectively and simply defined are traded on futures markers. (Billions of dollars worth of diamonds and oil paintings are bought and sold each year but they are not traded on futures markets. Their quality is based on subjective opinion and cannot be defined simply enough for forward purchase or sale.)

Different futures markets specialize in different commodities. This sometimes depends on their location. The Chicago market dominates futures trade in soybean because it is located near the world's largest soy-growing area. Silk futures are traded in Japan, Malaysia has a huge rubber trading market, and so on. Some futures markets dominate trade in a particular commodity for historical reasons. The Paris market specializes in white sugar, for instance, and the New York market is looked on as the world's market marker in arabica coffee.

There are about 20 internationally recognized futures markets based mainly in the major financial centers of the world. Some have a very small turnover and are used almost exclusively by local traders and investors and only trade in one or two locally produced commodities.

Only large-scale traders, producers, and consumers of tropical products are likely to be financially strong enough to be able to make use of a futures market. It is important for all those who are involved with these commodities to take notice of the prices trading on these exchanges, however. The volume of transactions on these futures markets is very large, often larger than the entire global turnover of the physical commodity in question, because most of the volumes of trade on the markets are paper transactions. For this reason, the prices traded for the commodities on futures markets carry great authority. The prices reflect the net results of transactions carried out by the experts employed by all the bankers, investors, traders, producers, and consumers who use the market. If most of the transactions in a commodity required to be delivered six months hence take place at a lower price on one day than they did on the previous day, it is likely to mean that deliveries for that future date are going to be more plentiful than was previously estimated. Price trends show the changing balance between world supply and demand.

Since so many people respect the ability of the futures markets to reflect the true market price of commodities, the markets are also used by buyers and sellers who wish to use a price formula in the contracts they make.

Let us suppose that a large Kenyan coffee producer needs to make a sale of 100 tonnes of his arabica coffee, which he expects to be able to deliver to a port in November. Rather than agree to sell to the dealer at a fixed price, he may agree to use something like the following price clause in his sales contract: "The sales price on a cif (cost, insurance, freight) Mombassa basis will be fixed at five US cents per pound discount to the closing prompt-month New York coffee market 'c' contract price as traded on the first day of November".

This so-called pricing facility offered by the futures markets is probably most useful to all those involved in the commodity concerned, whether or not they actually use the market to make transactions.

Annex III. A new initiative for supply management of primary commodities

The international prices of most major commodities produced by developing countries, such as coffee, cocoa, tea, spices, cotton, and sugar are lower now, in real terms, than ever before. Falling commodity prices represent a major reason for poverty and lack of development for all those countries that depend on primary products for employment and export revenue. Prices are predicted to fall further in the foreseeable future despite an increase in world demand. The simple reason for these low prices is oversupply.

If the supply of any manufactured product increases to a point were production becomes unprofitable, factories are closed and production cut until supply once more is balanced by demand. The economics of primary products produced by poor countries is completely different. These countries do not have the prerequisite conditions, including an adequate infrastructure, alternative investment opportunities, and an educational and skills base to develop nonagricultural industries in manufacturing and services. They must rely on cash-crop production for export revenue generation no matter how low prices fall.

The reason for overproduction can be attributed to the adoption of internal and international market liberalization policies. Under the conditions of structural adjustment programs, developing countries adopted policies to boost exports. These policies included offering investment incentives for cash-crop production and the devaluation of the local currency. Coffee-producing countries were encouraged to boost coffee production, sugar producers should produce more sugar, and so on. This resulted in overproduction of these commodities that caused prices to plunge in the international markets. Economists call this phenomenon the "fallacy of composition"—less income is earned as more commodities are produced.

In the case of some commodities, including coffee and cocoa, prices had been maintained at an adequate level under international commodity agreements. In 1989, however, consuming countries, led by the US and UK, decided to end funding to support prices within the retention schemes. Their stated reasons for doing this was to prevent countries becoming dependent on raw material production based on artificially high prices. It should be said, however, that consuming countries have saved considerable sums of money by having access to these commodities at very low prices.

During the last twenty years demand for these products has risen but not as fast as supply. Demand for coffee, for instance, has risen by 1.5% a year over the last five years, a respectable rate compared with the demand for many manufactured goods. Supply over the same period, however, has risen by 3.6% a year (stocks have doubled between 1997 and 2000) and the price of arabica coffee has dropped from 134 cents per pound to 50 cents (International Coffee Organization).

Demand for tropical beverage products is also extremely inelastic. It was calculated some years ago by Christian Aid that the demand for coffee, for instance, would not be seriously negatively affected if the price of green coffee beans were as high as US$5 per pound—ten times the current level. This is because the raw coffee price is such a small

component of the retail coffee price, compared with the cost of advertising, retailing, branding, packaging, etc.

The case for reintroducing some international management of supply of these commodities is now very strong. Control of the supplies of other commodities has proved to be very successful and has benefited the producers of those products enormously. One couldn't conceive of a commodity more difficult to control than gem diamonds. Millions of dollars worth could be smuggled in a matchbox. Yet De Beers have limited supply to meet demand at a profitable level for over a hundred years. Oil, the world's most important raw commodity, is successfully controlled by OPEC countries despite the huge political differences between them. The price of drugs are also kept artificially high by invoking patent agreements despite the fact that many lives could be saved if they were cheaper.

Opponents of supply management condemn the idea as contravening free market forces. In his book, *The State of the World's Children* (1989), J.P. Grant counters this argument. "Action of this kind," he says, "can surely not be rejected on the grounds that it interferes with the laws of the market place when the industrialized world itself continues to spend between US$125 and $150 billion a year (1980s levels—now US$360 billion—*Public Ledger*, 18 February 2002) on agricultural subsidies which deprive the developing world's exports of the right to compete for markets and are essentially commodity agreements to stabilize and guarantee incomes of Europe's own farmers".

Instead of encouraging the establishment of supply management systems, the developed world has decided to address the problem of increasing levels of poverty in developing countries by encouraging further liberalization reinforced by aid programs. Liberalization has not yet, however, delivered its promised rewards and aid programs are often porous and extremely difficult to target at typical, poor, small-scale farms which employ the bulk of the population in most developing countries.

Any increase in revenue derived from commodity price rises, however, is likely to accrue to individual producers. In other words, extra income will be naturally targeted at people needing help. An international plan to manage supply could be achieved with a comparatively modest bureaucracy compared with the colossal machinery of an equivalent aid distribution system. This extra revenue would be substantial. A reduction in oversupply of coffee, for instance, to balance supply with demand (maybe 5% of production) to raise the price from 50 cents per pound to $2 (a fairly modest objective) would increase producers' revenue by 19 billion dollars a year (world production 6 million tonnes). The scheme would have the added bonus of releasing good land for food production.

A mechanism for a new supply management initiative

The world has changed since the effective collapse of the UNCTAD-initiated international commodity agreements but the essential lessons learned by UNCTAD in establishing these agreements should be understood before designing a system that would be in harmony with today's economic climate.

The essential reading on this topic is *Taming Commodity Markets* (1992) by Gamani Corea, the Secretary General of UNCTAD during this period.

Considering the book was written a decade ago, Corea displays considerable prescience by stating that: "Supply management by producers, whatever the instrument used, may prove to be a necessity in the light of the prospects for commodity prices over the next decade".

He begins by arguing that the need for developing countries to act together is essential. "When commodities are supplied by a large group of countries, none of which has significant market power individually, it is only by collective action that markets could be influenced".

Acknowledging that the failure of developing countries to work together reduced the effectiveness of the supply management program, he says: "The most important shortcoming on the side of the developing countries was, however, their relative failure to coordinate their positions and agree among themselves on a decisive plan of action. The essence of price stabilization arrangements is supply management, whether through export quotas or stockpiling. Commodity supplies are under control of the producing countries and if they were to succeed in restricting or managing these supplies through agreement among themselves they would be able, unilaterally, to influence prices. This is especially true of export quotas since these do not require actions by consumers".

Corea continues by encapsulating the essence of any such agreement: "The commonest are schemes for the restriction of production or exports. The regulation of total supplies to world markets would require the allocation of export shares or quotas to individual producing countries and an agreed basis for determining such shares would need to be established. Moreover, within each country, means would have to be found for distributing that country's quota among its domestic' producers and administrating the allocations that have been decided upon".

He goes on, however, to explain one of the most important difficulties he encountered in forging and maintaining these agreements: "It would seem also that the developing countries, lacking the organization and facilities needed to design and foster agreement on price stabilization schemes, placed unduly heavy reliance on the Secretariat of UNCTAD to help in this task".

For this and other reasons, Corea concludes that any scheme designed to manage production is best undertaken with the agreement of consuming countries as well as producing countries.

Indeed, supply management could also be said to be in the interests of consuming countries. Another commentator, Sydney Dell, has put it this way: "While..(the)...opposition (of the industrialized countries) could be understood in terms of their short-term interests, it was less clear that it was rational in the longer run perspective, since rising real income in the developing countries was clearly in harmony with the interests of developed countries from many points of view, including the larger markets for their exports that a prosperous Third World would imply". (The origins of UNCTAD).

It should be born in mind that the UNCTAD-initiated commodity agreements were between states, not representatives of the commodity producers themselves. I know from my own experience as a commodity trader that this feature of the agreement represented a weakness. Firstly, commodity producers have a more direct and urgent interest in maintaining higher prices for the goods they produce. Secondly, some governments, given the power

to allocate export quotas to producers, abused that power by offering quotas to domestic producers whom they favored and denying them to producers whom they perceived to oppose some aspect or other of government policy or on the basis of racial or cultural identity. The system too was abused in some cases by corruption.

Another serious weakness of the UNCTAD commodity agreements was that they were based on agreed export quotas rather than agreed export capacity. This is known as an export retention scheme and allowed for the funding of surplus stocks. This funding was advanced primarily from consuming countries rather than producing countries. This put the power to continue or abandon the program in the hands of developed countries that could benefit, at least in the short term, by ending the agreement. This they duly did in 1989 by withdrawing from the funding arrangement.

In most producing countries there is at least a semblance of organization of farmers. These may be farmers' unions, associations of cooperatives and/or associations of producers of a specific commodity. In order to reflect the change in thinking among development economists, it would seem likely that any agreement would be considerably strengthened if these private-sector actors represented the main participants. Clearly, the representation of the interests of farmers differs from one country to another. Moreover, these arrangements may vary from producers of one commodity to those of another. This suggests that a new initiative to manage supply of commodities should identify, and where necessary support, these organizations in each country and enable them to acquire the necessary resources to allocate export quotas among themselves by mutual agreement.

Gamani Corea was able to organize the establishment of the international commodity agreements with only the 25 professional staff of the UNCTAD Commodity Division— the number of staff that would be considered a small company in the private sector. Some of the apparatus of the agreements remains intact. Institutions like the International Coffee Organization (ICO), and similar organizations for cocoa, sugar, and rubber-producing countries still help to represent their members' interests. The Common Fund for Commodities, another construct of the agreement, also functions but only for nonmarket intrusion work such as supporting sales promotion, quality improvement, and futures market risk management schemes.

In other words, any new supply management program would not be starting from scratch.

In addition to these institutions, there have been several other attempts to reintroduce some order into commodity markets. In 1993, the Association of Coffee-Producing Countries(ACPC) resurrected another retention scheme, without the assistance of coffee-consuming countries this time. Unfortunately, the scheme collapsed in early 2001. The ACPC has offered several reasons for the collapse—lack of funds, failure to attract all producers as members, cheating, etc. Mexico faced a legal challenge if it took part under its NAFTA agreement.

The difficulties of reaching agreement between all developing country producers of a particular commodity should not be underestimated, as Corea's book clearly illustrates. However, what is certain is that these countries have a massive interest in trying to reach agreement. It could also be said that developed countries could be persuaded to support such a program if it could be demonstrated that it was in their long-term interest to do so. The

revenue derived by poor countries would not only reduce the need for some aid programs, it would also help to ensure more stability in the developing world.

One component of new agreements might be to include a linkage with investment of the extra revenue in added-value products. Just as the prices of primary commodities have fallen over the last two decades, the price of products processed from these raw materials—chocolate bars, instant coffee, etc. sold in Western supermarkets—have staged an almost as significant rise in price. This suggests an obvious development strategy. The processing and packaging of domestically produced raw materials could form the basis of new manufacturing and service industries thus reducing reliance on raw material production. This, after all, is the ultimate goal of all economic development programs. If developing countries can be allowed to establish new industries rather than relying on sterile aid programs, they can truly contribute to the world's economy.

The task of coordinating new thinking on this subject, especially in developed countries, also has some potential partners. The major development NGOs have, for many years, identified low commodity prices as a major cause of poverty. They have considerable influence in many forums and could be relied upon to support and lobby for such arrangements.

The UNCTAD agreements were based on export quotas not production capacity. This gave rise to the problem of storing surplus supplies. Apart from the problems of having to raise the necessary finance to keep these stocks, the organizers had to cope with the problem of keeping semiperishable goods, like cocoa beans in stores for, sometimes, several years. As production capacity often exceeded a country's export quota, the retention arrangements also encouraged cheating by member countries and many traders were willing to smuggle surplus coffee out of the country and sell it on the open market which had the effect of keeping prices down.

A more robust arrangement would involve the destruction of a small proportion of production capacity. This would, of course, imply the added problem of inspecting individual producer's land in order to regulate the cutting down of trees and the planting of crops. It is possible that new satellite imaging technology could be used for this task. It should be born in mind that cocoa trees and tea bushes do not come to maturity until five years after planting and coffee bushes take three years before becoming productive, so, in the case of these important crops, inspections would not have to take place very often. Again, local farmers' associations would need to be responsible for such work.

In order to understand how a new supply management program could operate successfully, some knowledge of how commodity markets work is essential. Although the differences between the volume of supply and demand represent the most important influence on price movements, sentiment also plays a major role. Traders not only act as intermediaries between buyers and sellers, they also make the bulk of their income by taking a position on the market—they are speculators. They perceive the markets of tropical products as fundamentally weak—mainly because they see no prospect of successful supply management in the foreseeable future. It would be important, therefore, for any new initiative to be supported by organizations with a reputation for integrity and professionalism. The sentiment in a market can be turned instantly if the right signals are given. Such a change would, in itself, lead to a stronger market.

It is probably also important for the initiative to begin with a single commodity rather than attempt to tackle several commodities at once. Corea agrees and goes on to say: "The possibilities in the area of tropical beverages, for example, where demand elasticities are relatively low and production heavily concentrated in developing countries, might be better than in the case of several other commodities". I would go further and suggest coffee as the first commodity for a new program. Success with one commodity would make the subsequent control of the supply of other commodities much more likely.

It would of course take some time to ensure that all member countries had taken steps to control production and exports. It may, therefore, be necessary, both as a practical measure and from the point of view of sending a robust market signal, for some proportion of stocks to be destroyed as the first act of a new supply management program. This measure is not as drastic as it sounds. Since the deregulation of markets it has been more difficult to control the quality of many commodities and there has been a build-up of large stocks of substandard products. Destroying these will not only help to introduce some rigidity into the market but also improve the reputation of suppliers on quality standards. Clearly, funding will be required to compensate suppliers for the loss of their stocks, but some system for recovering this cost could be built into the system once prices increase.

Individual farmers are likely to respond to the suggestion that they should reduce production capacity as just another "trick" from the outside world, which will impoverish them further. It is very important, therefore, that the substantial benefits likely to arise from a successful program are explained to them by people they trust—preferably fellow farmers. If they could be sure that cutting production by 5% would double their income, they are likely to cooperate.

Enlisting the support of those countries, especially the industrialized countries, that consume the commodity in question may be essential under GATT and WTO rules (see Commodity agreements and international trade rules, below). It would also be useful to enlist the support of UN agencies and other governmental organizations and the Common Fund for Commodities. However, it should be born in mind that individual producing countries have sovereign control over exports of their products and of their farming and export policy. Governments of producing countries need to support and work closely with the producers' associations chosen to implement the program in each country. It would also be important to enlist the full cooperation of and offer the necessary support to the international commodity organizations, which would be the most likely body to coordinate activity. Tropical commodities are the only things that developing countries have which the rest of the world cannot or would not be prepared to do without. Some effort needs to be made to capitalize on that fact.

It is not the purpose of this report to offer a detailed design of how a supply management program would work. It should be said, however, that the large trading firms regularly and substantially influence the price of these commodities through speculative activities. They do this without sovereign control of any production and by manipulating relatively tiny amounts of stock. It seems reasonable, therefore, that a robust program controlled and regulated by the producers with international assistance and the full understanding of the markets concerned could bring back proper market control of the commodities they produce.

Commodity agreements and international trade rules

Under WTO rules and practice, an agreement could be considered as a commodity agreement only where in addition to "producing countries", those which are "substantially interested in importation and consumption of the commodity" agree to become its members. Countries which are members of such commodity agreements are permitted under "general exceptions" to the provisions of GATT 1994 to impose restriction on production, imports, and exports, even though they may be inconsistent with its rules if they are imposed in pursuance of obligations which such agreements impose (Article XX).

A considerable amount of work on the development of principles and guidelines that should be adopted in the negotiations and adoption of commodity agreements was undertaken by UNCTAD in the 1970s. One of the important principles which these guidelines laid down is that the prices should be established at levels that are "remunerative to producers" and at the same time "reasonable" from the point of view of consumers or users of the commodity concerned.

Industrialized countries are also facing the problem of "structural excess capacity" on a global level in the production of aluminum, steel, and a number of basic chemicals. This may influence the attitude of governments of industrialized countries on commodity agreements among producing countries for stabilization of prices. In the aluminum sector, for instance, six producing countries agreed in 1994 on the memorandum of understanding to cut back on production in order to prevent prices from plunging further. In the steel sector, the developed producing countries are trying to reach agreements on requiring industries in their countries to cut production under the OECD umbrella. It was expected that such an agreement would help countries to resist pressure from their industries for the imposition of antidumping duties on low priced imports. The USA has, however, imposed such duties on some countries.

These developments have also resulted in the demand by industrial associations in these countries, in the present round of negotiations, to develop new rules, which would permit producing countries to establish "equilibrium" between structural capacity for production and estimated world demand.

WTO rules do not apply to arrangements among private-sector producing firms aimed at stabilizing prices as its rules only apply to measures taken by governments. Such arrangements may, however, be challenged under national competition laws, which, inter alia, prohibit arrangements for price fixing. Such challenges have been mounted against producers of drugs, wood pulp, and diamonds.

The participation of producers' organizations in a management supply program for primary commodities

A supply management program will have to operate at both the national (domestic) and international level. If producers' organizations are to have a pivotal role in the program, structures have to be put in place to represent producers at both these levels.

At the domestic level it is clear that existing organizations representing producers in each country should be regarded as the obvious major participants in the program.

Although I believe that it is too early to design a detailed plan which might specify the role of different participants in such programs, it seems to me that some government agencies, at the national level, should also have an important role.

Let us take the case of coffee.

I have not done the necessary research for each coffee-producing country. However, I am confident that every major coffee-producing country maintains a government agency, which still plays some role in the review or regulation of coffee production and/or exports. Since the liberalization of the coffee marketing system in most of these countries, state-controlled coffee marketing boards play a much diminished role, however. In Uganda and Ethiopia, for instance, these organizations still exist, but their function of representing coffee producers has been mainly taken over by private-sector producers and exporters' associations. Government agencies are, however, still charged with the task of representing coffee-producers interests at the international level in such organizations as the ICO and ACPC and in bilateral and multilateral trade negotiations.

Depending on the relative strengths and role of private and public-sector organizations in each country, it would seem sensible to me that the entity charged with the administration and regulation of a supply management program should be a partnership led by private-sector producers' associations with the support of, and in conjunction with, these relevant government agencies.

It may well be that producers' associations in some countries lack the resources and organizational strengths to undertake the task of administrating such a scheme. In such cases, the necessary support would need to be given to enable them to do so. Such support might take the form of training, the funding of personnel, and the provision of premises and communication equipment. In order to preserve the autonomy of such private-sector associations, I would strongly recommend that such support be provided by the international entity charged with the responsibility of managing the program at the multilateral level rather than be channeled through government agencies.

This brings us to the issue of how this international entity should be formed.

Again, in the case of coffee, the producers are still represented by public-sector, multilateral agencies in the form of the ICO and ACPC. These organizations, although much diminished in influence after liberalization, retain a wealth of knowledge and experience in the coffee market. It would seem to me that these resources should not be overlooked. I am not fully conversant with the constitution of these bodies but I suspect that, given their membership governments' support, they could be reformed to offer a leading role to private-sector representatives from each member country. Clearly, these organizations would need a secretariat of experts to enable them to administer and regulate a supply management program at the international level and to provide the necessary support for national, private-sector representatives.

The start-up costs of establishing these domestic and international organizations will, of course, need to be covered, preferably from an international fund. It is unlikely that the private-sector participants in the program will have the necessary financial capacity to provide this funding.

Some effort should be made, perhaps in the form of a feasibility study, to determine the scale of funding needed. In addition, work needs to be done to investigate the possibility of raising the necessary funds from donors, international charities, or from ordinary commercial loans. Once the program begins to work it might be assumed that the program would become self-funding as increased revenues from commodity exports accrue to individual members of the producers' associations who might expect to pay a levy on sales of their product. The levy would also need to be used to repay commercial loans for start-up costs if this option was used.

Using my suggestions for the model I have outlined, I would maintain that the medium- to long-term purpose of any supply management program should not be to regulate the price of a commodity at a specific level for the foreseeable future. Rather it would be to limit the duration of the program to a point where the necessary investment could be accrued from higher raw material prices to establish processing and marketing industries for added-value products made from the raw material. The long-term purpose would be to relieve countries from dependence on primary products.

Annex IV. Strategies for economic and agricultural development policy.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Trade negotiations. Countries in the ASARECA region are facing rapidly declining terms of trade, caused by oversupply of the major commodity markets. Despite the magnitude of this problem, the current government reporting structures in many countries are not conducive to improving trade policy, and developing defined positions on trade and thereafter negotiating for more favorable trade opportunities. Links between the Geneva- based representative and the implementing line ministries such as Trade, Finance, and Agriculture are not in place and therefore institutional reforms are required to improve the flow of information and the capacity to formulate trade policy based on the views of the appropriate line ministers. This option clearly shows the advantage of countries working together to cut costs and provide a common voice to trade positions.	Enhanced capacity to make informed decisions on trade policy for the domestic, regional, and international markets. Develop a much-improved understanding of the issues related to WTO and other regional trade negotiations and undertake institutional reforms to develop a team of experts that can work across the three main ministries. The key aim being to strengthen the linkage in analysis and decision making. An example of such a problem in the ASARECA region is falling coffee prices. This is caused by a 5% oversupply in the global market, which has forced prices to a 40-year low. Nevertheless, demand for coffee is increasing at 1.5% per year and therefore is a healthy growth market. In order for countries in the region to gain from more favorable trade policies, options need to be explored with the WTO and agencies such as UNCTAD to managing supply more effectively in order to raise prices and improve product quality.	The Geneva-based trade representatives should report not only to foreign affaires, as in some countries, but also to the Ministries of Trade, Finance, and Agriculture. This position should also link to the private sector through projects/organizations such as the private-sector investment council, chambers of commerce, export promotion councils, and key players in each sector. A team of experts needs to be established in the home country with links to the major line ministries of Trade, Finance, and Agriculture. This group will conduct analysis of trade options and develop both position papers and policy for domestic, regional, and international trade which will be disseminated to local/ regional-based ministries and representatives in Geneva and Brussels.	Establish a high-powered, small secretariat/group of analysts/advisers (3), with a focus on Trade, Finance, and Agriculture. This team will have the responsibility to analyze the decisions to be taken by the country/regional representatives at trade meetings such as ECA, COMESA, WTO-Geneva/ Brussels. The team TOR should include direct reporting to the minister in terms of advising on key issues and forming a position which can be endorsed by government. Regular expatriate TA should be available to this team on a short-term basis, for advice on specific issues, pertaining to the key markets that any given country is developing, such as coffee, cotton, fish, tea, livestock, maize, etc., and for support on specific topics as they arise. **Partners**: Ministries of Trade, Finance, and Agriculture, the private sector, USAID agricultural and finance projects, CMIS, COMESA, WTO, Commonwealth Secretariat, ASARECA.	Position papers prepared on key aspects of trade with special emphasis on key commodity sectors. Efficient, immediate decision making on trade policy. Development of a group of analysts who can lobby for regional support and more collective decision making towards the development of more favorable policies for regional and international trade.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Market analysis and market intelligence. Globalization is increasing the pressure on countries in ECA to be ever more competitive. Given that countries in the ASARECA region need to produce products that have a market and invest in options for the supply of goods to growth markets and increase revenue through investment in vertical and horizontal diversification, capacity needs to be strengthened in the area of market analysis, marketing intelligence, and agro-enterprise development.	**Enhanced capacity to make informed decisions on market opportunities and develop business/implementation plans for the improvement of key sectors and investment opportunities.** Many countries in the ASARECA region do not have capacity in market analysis and the dissemination of market intelligence/trade information. When studies are required, they tend to be undertaken by expatriate experts who have a limited knowledge of local conditions and opportunities. Developing local capacity in market analysis and sector support advice is critical to supporting the growth of the private sector. The group would conduct analyses and develop a database on market opportunities. This group would orient every decision on marketing aspects with a brief to move away from production of primary goods towards higher value options. This group would analyze markets at the request of private-sector clients and undertake analysis of effects of shifts in price on demand.	Market analysis unit, which analyses the prospects for investment opportunities in selected growth markets. This team should be a small group of marketing experts, (max 3 persons) with TOR to reflect specific needs including: • market chain analysis • agribusiness planning • finance requirements • sanitary and phytosanitary regulations • food safety • branding • packaging • product development Group should be developed with at least one full-time, expatriate expert if local capacity in unavailable. Experts will provide on-the-job training in market analysis and preparation of marketing briefs.	Establish a market advisory/ agribusiness group, which is made up of young, recently trained agricultural economists. Where possible, the staff should be given additional training overseas, in market analysis and also seconded to key agribusiness projects within the ASARECA region, to gain first-hand experience in market analysis and dissemination of information to clients, both in government and in the private sector. **Partners:** Private-sector ministries of Trade, Finance, and Agriculture, USAID agricultural and finance projects, rural banks, private sector foundations, Export Promotion Council, NGOs ASARECA, NARS.	Rapid, effective decision making on where to invest in selected market chains. Ability to conduct rapid market surveys and provide expert information on opportunities and constraints in the market chain. Key support group to the implementation of the new poverty reduction policies, giving advice to extension, research, MIS group, private sector—both collective groups and larger scale enterprises. Provision of market chain analyses in key commodities. Storage of data on a dedicated website for access by all other interested partners, e.g., private sector promotion council and Export Promotion Council.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Market information to improve market linkage. In several recent private and public-sector studies, market information has been rated as the second most important constraint by farmers in terms of access to markets after roads. According to a recent NRI study in Uganda, it is stated that "the need for effective market information for improving market access is absolutely crucial…and that a decentralized, flexible information system bringing on board all the main stakeholders is a vital for implementation under new government policies for agriculture, PMA." In virtually all countries that rely on agriculture, market information is considered a cheap and effective means of supporting producers. This is a first step in a strategy for improving the commercial thinking and action of small-scale producers.	**Provision of market information.** The marketing information service needs to collect and disseminate market news which is regular, timely, and accurate. The service should operate at four levels, providing pertinent information to the clients in each of these groups. 1. Local, district subcountry 2. National 3. Regional 4. International The information should be disseminated using all available media including SMS phones messages, email, Internet, newspapers, and FM radio. To enhance trade, market information should seek to provide a mix of price discovery with market intelligence, so that farmers, traders, and processors know current prices and have a better understanding of prevailing market conditions.	Autonomous unit, consisting of (3) data input and analytical staff, (1) market agent for the Kampala city markets, and (#) part-time market agents working in the selected districts. This unit should report to Ministries of Trade and Agriculture. The information should be disseminated to: • Ministries of Trade, Finance, Agriculture • Research, Extension • Policy organizations such as trade group, marketing group, FEWSNET • Agricultural development projects • NGOs • Farmer associations • Farmers and traders.	The market information will be collected using trained staff in order to obtain accurate prices Information will be analyzed using software packages such as Excel, Agrimark/Priceman. Market data will be stored in SQL and Access/Excel databases. Market information will be disseminated via all financially viable media. Feedback from service will be analyzed by listeners' groups and externally hired consultants. Criticism from these groups will be used to improve the service on a regular basis. All efforts should be made to develop cost-recovery mechanisms over the 5-year life of this project so as to increase the financial sustainability of the unit. **Partners**: Private sector, Ministry of Trade, extension, farmer associations, USAID, NARS, FEWSNET.	• Improved market efficiency. • Reduced ability of traders to collude. • Increased rural/producer/processor incomes. • Provision of first step on the rung towards greater commercialization of the agricultural sector. • Provision of timely, accurate market information including: – commodity prices – specific prices by grade – volumes traded – weather conditions – crop forecasts – road conditions – import and export activities – regional and international market for products grown in the ASARECA region – pertinent market news • Other aspects could include: – options for obtaining credit – input supply stores

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
National education for farmers to enhance their ability to operate within a liberalized market. Many actors in the farming community are still not well versed with the workings and dynamics of the liberalized market. After many years of being paid by government commodity boards and working through cooperatives, a large number of farmers in the ASARECA region still believe that commodity prices are fixed by government. In order for farmers to make the shift towards more commercially oriented farming, they need to understand the basics of operating within a liberalized and increasingly globalized market.	**Enhancing the ability of farmers to make the paradigm shift from subsistence to more commercial farming.** At present many farmers in the ASARECA region are characterized by: • Inconsistent suppliers of low quality goods. • Farmers do not trust each other and therefore cooperate or collective organization is limited. • Farmers do not know how best to use market. information and how to operate efficiently in the marketing system. • Farmers do not grade, clean, or aggregate commodities. • There are up to 7 traders within a market chain, which makes for high transaction costs. Empowering farmers to understand the need to become more competitive and work on a more collective basis requires organized training and an information package. This can be achieved through radio programs linked to workshops to be implemented by extension /NGO partners.	Local team of experts in media working in close collaboration with the MIS team. The team will need to interact with the MIS team to gain a strong working knowledge of the value of the information being disseminated. This will need to be integrated in such a format that the educational information can be used by and have value for: • Extensionists • Farmer's Union partners • Researchers • NGO staff • Radio broadcasters.	Development of training materials for farmers groups, workshops, and FM radio broadcasts. Integration of training materials into extension, NARS, and NGO programs with the aim to support the process of linking farmers to markets. **Duration**: The provision of training in marketing and how to be more competitive is a short-term process. It is estimated that a two-year, radio-based campaign will be sufficient to considerably increase the farmer understanding of how markets operate and the role to be played by the farming community. The skills developed over this time may be translated into a longer term, radio-based extension scheme if the first phase proves successful. **Partners**: Business oriented NGOs, FM media specialists, private sector groups, extension information officer.	• Farmers effectively using market information and the value adding aspects of aggregation of commodity, quality and grading, sorting, and packaging commodities so as to maximize their ability to gain best prices for their commodities, according to prevalent market conditions. • Greater understanding at the grass roots, i.e., the general farming community, as to the dynamics and operations of a liberalized markets. • Clearer understanding of the purpose of market information and methods in how best to use market information. • Improved understanding of merits of market related engagement such as: – use of commodity price information – collective marketing – grades and standards – storage and crop quality

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Collective marketing. Following the collapse of the commodity marketing boards and the cooperative movement, many farmers have taken the choice to operate as individuals when producing and selling their goods. Market surveys reveal a serious breakdown in trust between farmers and especially between farmers and traders. This means that farmers work alone, buy inputs for themselves, and will only sell to cash buyers. Farmers are also more willing to sell at low prices to cash buyers rather than work on higher prices through credit. Operating as an individual in the production and marketplace makes farmers highly vulnerable to being price takers. Low prices are a poor incentive and this is reflected in low quality goods, produced inefficiently. Lack of cooperation means that farmers do not benefit from economies of scale and lack of information flow between farmers impedes any progress that could be achieved through the transmission of new technologies.	**Farmers need to work in a more collective manner to be more competitive.** Key aspects include: • Greater trust between fellow farmers and obtaining skills to work in a business-like manner with fellow farmers. • Establish relationships with traders. • Obtain information about new/improved technologies via farmer to farmer communication. • Economies of scale in production through joint planning. • Access lower cost inputs through bulk purchase. • Aggregate and grade produce. • Gain from higher output sales prices, through collective trading. • Access credit for storage and transport via group submission to banks.	Contractors will be hired at the national, district and local levels to provide training to farmers in how to work in collective farmer organizations. This is a task for a specialist community directed organization. Organizations in the ASARECA region with these skills that are known at this time include: • CLUSA • ACDI/VOCA	• Group training. • Linkage of groups to market information. • Workshops. • Training of trainers. **Partners**: CLUSA, ACDI/VOCA, extension, district level extension staff, farmers groups.	• Improved rural incomes. • Improved quality of product. • Improved ability to aggregate commodity in rural areas. • Common use of grades and standards, and weights and measures. • Reduced transaction costs.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Linkage of agricultural research to private sector. Many of the NARS in the ASARECA region are undergoing a shift towards a more commercialized approach to farming. This more market-oriented approach will filter into virtually every aspect of research projects from the strategy statement through to the detailed planning, implementation and evaluation of research projects. Making this shift is the centerpiece of the ASARECA strategy as laid out in the Strategic Planning Document.	**Enhanced capacity of NARS to undertake market analyses and link their research to the needs of the private sector.** Most NARS have little capacity to conduct market analyses and link market information with private-sector clients. There is currently little concrete evidence that the organizations have made the shift from a production to a more market-oriented position. In order to do this effectively, institution reform will be required at all levels to achieve this paradigm shift.	Establishment of a market analysis unit, which analyses the prospects for investment opportunities in selected growth markets. This team should be a small group of marketing experts, (max 3 persons) with TOR to reflect specific needs including: • Ability to conduct market chain analysis and determine demand for commodities/products. • Interpret market information. • Develop agribusiness planning for agro-based enterprises, particularly with a focus on added value. • Understand sanitary and phytosanitary regulations for key markets. • Be able to link with partners to develop branding concepts. • Link with partners to provide advice on grades and standards, weight,s and packaging requirements to meet specific market segments.	Hire new staff with skills in market analysis. Train staff through linkage with organizations such as ASARECA/ FOODNET in methods of rapid market analysis and preparation of market briefs for clients. Send new staff on short-term training programs with agencies involved with market studies and rapid appraisal missions, agribusiness planning, and spatial analysis techniques. IFPRI and other agencies involved with market analysis. Develop work plans with strong private sector linkage and also with strong linkage to the policy analysis groups within the PMA. **Partners**: IFPRI, CIAT, Technoserve, CARE, farmers unions, farmers groups, and private sector.	• Improved sectoral linkage with research. • Enhanced ability of NARS to meet the needs of the private sector. • Research information available to enable NARS to make the shift from production-based activities to market-oriented R&D programs. • Market surveys that inform where best to invest limited R&D funds for maximum commercial returns. • Spatial analysis of opportunities for commodities/enterprises to pinpoint where best to make investments. • Ex-ante/ex-post analysis of cost: benefit for investment in selected technologies via DREAM. • Development/support to private-sector partners in preparation of policy briefs on market intervention. • Linkage of NARS with key private-sector players in selected sectors. • Linkage of NARS to other agencies involved with market-oriented intervention within the agricsector.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Action/Roles	Result
Promotion of agribusiness opportunities through linkage of Private Sector Investment Council with Export Promotion Council and embassies to promote ncreased Foreign Direct Investment (FDI). Potential investors in the ASARECA region need to be able to access information quickly on the merits and possibilities of selecting a specific country in which to invest their funds. These potential sources of FDI need to know what is on offer in terms of business opportunities and what are the incentives for coming to a specific place. At present visitors to the ASARECA region find it difficult to obtain this information and embassies often have no information for business people to review.	**Development of a series of business plans providing information to potential investors about the opportunities in countries in the ASARECA region**. Globalization is a process, which is creating both opportunities and constraints for the business community. Given that growth is related to export trade, then LCD countries in the ASARECA region need to focus greater attention on obtaining more FDI in order to improve their terms of trade. Opportunities granted by new trade initiatives such as the EU's "Everything But Arms (EBA)" initiative and the US initiative entitled "African Growth and Opportunities Act (AGOA)", can only be exploited if foreign partners are attracted to invest in the ASARECA region to build the necessary technologies and factories that can open these markets. LDCs in the ASARECA region must compete for FDI and therefore a concerted effort is required to stand out from the pack.	The Trade and Marketing policy group in collaboration with other agencies such as the donor-funded agricultural and trade-based projects, private sector investment councils, and the Export Promotion Council, possibly with the NARS-based marketing group and other agencies involved in agricultural sectoral development and investment.	Preparation of investment briefs and distribution of these prospective business opportunities to the Private Sector Investment council, the Export Promotion Council, embassies, and on the ASARECA regional/national websites.	• Greater FDI in the ASARECA region. • Investors are able to consider a range of business opportunities, particularly value-adding opportunities with an outline of costs, returns, time frame, and incentives for investing in the ASARECA region. • Linkage of the investment briefs to the presidential outlook for investment planning and implementation.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Methodologies	Result
Improved legal framework and enforcement to build trust and equity into the market place. There is a widespread lack of trust within the national and regional marketing structure that is built on lack of confidence in the legal framework surrounding marketing practices and the enforcement of the laws. The markets suffer from a high degree of collusion at all points in the market chain. This is to the detriment of both farmers and consumers.	**Improving market conduct and reducing restrictive market practices.** There is a general perception that markets in the ASARECA region operate inefficiently and that transaction costs are high due to the effects of collusion, numerous taxes, adhoc costs, bribes, inability to enter markets with competitive goods, and lack of price differentiation in the market place. The fact that all wholesalers and retailers, of which there are many, buying and selling commodities at the same price on a given day, suggests that the idea of perfect competition has been replaced by a practice of perfect collusion. Understanding more about the logic of this practice and how to change the way people do business, i.e., introducing competitive practices into the market is something that needs to be addressed if markets in the ASARECA region are to progress beyond their current level of operation.	Policy group to investigate the current malpractices within the marketing system and evaluate the effectiveness of current policies in regard to taxation and informal barriers to market entry including bribes, levies, and sales taxes. These surveys should be done in collaboration with local consultants and NGOs.	Surveys to evaluate the degree and types of restrictive practices that occur between the farm-gate and the sales of products at the retail level. This would include an analysis of: • Rural market taxation and the effect this has on farmers and local traders. • Intradistrict taxation. • Adhoc road taxation • Physical, political, and financial barriers to entry at wholesale markets. • Efficiency and appropriateness of market facilities and conduct at the wholesale and retail levels. • Wholesale collusion and its effects of new market entrants. • Retail collusion and its effect on consumer prices. Output may be training and pilot testing new competitive practices in the market place.	• Fewer traders in the marketing chain. • More competitive markets with less barriers to entry for new entrants. • Reduced transaction costs. • Reduced collusive practices within the marketing structure.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Methodologies	Result
Improve rural finance. Most farmers in the ASARECA region are unable to access credit to enhance their ability to purchase inputs and to hold stocks during the peak marketing period. This means that virtually all farmers are locked into a low production poverty cycle. Similarly most traders are also unable to access credit and therefore operate in a cash economy. For both groups, lack of credit leads to delays in purchase of goods, inability to purchase goods and services at critical times, and cash flow problems. New ways of re-introducing finance into the rural sector need to be found and this may include new partners that can support farmers.	**Improving rural access to credit for farming activities.** Farmers are being asked to become both more productive and competitive. This can only be achieved on a sustainable basis if this sector of society can access credit. Credit or funds from savings schemes is required to buy new varieties that are higher yielding, fertilizer, labor for weeding, harvesting, storage, and grading, and transportation to market. Virtually all farmers in the world operate on a credit scheme, which is repaid at the time of sale. If credit cannot be obtained due to lack of collateral, lack of legal protection for banks, or due to high rates of default, then farmers need to work with the banking and loans sector to find new ways of doing business.	Policy advisory group working in conjunction with the private sector, microfinance consortium, banks, legal apparatus, and other groups such as NGOs, CBOs, and farmer associations.	Development of protocols with banks for increased access to credit. Review the requirements from banks to access funds and also to review the policy/legal framework that may need to be addressed in order to improve the credit worthiness of farmers and traders. Issues for this include: • Reducing risk through collective action. • Land reform to provide farmers with title deeds, which can be used by banks to gain access to credit. • Viability of national identity card system such that banks can verify credentials of clients. • Development of arrangement for group credit which potentially has lower rates of default. • Legal framework required to avoid poor lending. • Assess value of warehouse receipt schemes for lower end clients.	• Farmers and traders access credit from new sources of finance. • Get away from reliance on a limiting cash economy. • Farmers and traders develop new methods of building collateral assets through collective action or savings schemes, such that they can increase and validate a credit rating. • Farmers and traders become coordinated to lobby for and gain access to increased rural credit to support farming activities on a collective basis.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Methodologies	Result
Transport. Despite considerable advances in both the road and rolling stock in the ASARECA region, transport remains a key problem in high transaction costs. Transportation via truck is expensive due to high costs of fuel, delays at check points, delays at borders, and due to the problems associated with high maintenance of old vehicles travelling on poor roads.	**Reduced transaction costs through more efficient linkage of goods with transport agents**. There are a number of issues that need to be addressed in the transport sector. Some of these issues have been captured in recent and past studies. These studies need to be reviewed and issues prioritized for discussion with the key actors. The issues include: • backloads • costs of fuel • poor road conditions • old lorries that are not well maintained • disrepair of the railway network • corruption within the railway network • poor border management.	Policy group working in conjunction with donor agricultural projects, IFPRI, communications providers, transporters association, and other farmer-based support organizations, projects, and NGOs.	Transaction studies need to be reviewed in the light of devising systems and technologies to reduce the costs of transportation. Communication systems may be developed to increase backloads of goods. New financing system can be developed to avoid road junction taxation and informal taxation at roadblocks and market entry points.	• Reduced transaction costs. • Reduced transaction time. • Reduced loss of goods and delays through ineffective and abused systems. • Development of novel communications systems to enable transporters to reduce empty journeys. • Reduced problems of transporters in regard to adhoc costs of transportation, such as district level taxes, and bribes to police and market managers. • Greater access of transporters to whole market delivery points.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Methodologies	Result
Improvements in physical market infrastructure. The World Bank has been particularly active in supporting improvements in the markets in the ASARECA region. For example, there are a number of new retail markets in Kampala that are modern, have room for expansion, and play a very effective role in the retailing of commodities. However, in the Kampala situation, the wholesale market sector is less well supported and major wholesale markets are in dire need of rehabilitation.	**Improved physical infrastructure for markets in Kampala with particular emphasis on wholesale markets**. The rapid rate of urbanization in the ASARECA region is already increasing pressure on the available, weak municipal facilities. This situation will become increasingly pressured as the rate and level of urbanization is increasing and therefore steps need to be taken now in order to address the needs of the major urban centers. An efficient, wholesale marketing system is vital in keeping transaction costs to a minimum and also in developing urban marketing systems and services that can be fairly operated, taxed, and maintained. Continued use of outdated, overburdened facilities, leads to urban chaos, which in turn translates to higher costs for market agents and consumers, manipulation of service providers, low tax recovery, and unhygienic facilities.	The issue of market infrastructure needs to be evaluated by a team of urban experts working in close collaboration with city councils.	Surveys to review market conditions and prioritize which markets most urgently need rehabilitation, moving, or closure. Development of proposals and projects to find ways of rehabilitating the most important markets and thereby improving wholesaling conditions and efficiency.	• More efficient marketing costs. • Reduced transaction costs. • Reduced consumer costs. • Greater order in terms of market agents and taxation systems. • Improve hygiene. • Reduced transportation problems associated with offloading and loading facilities. • Improved management of markets. • Improved working conditions for wholesalers and retailers. • Improved consumer conditions. • More environmentally friendly performance of the market.

Annex IV. Contd.

Justification	Issue to be addressed	Who does it	Methodologies	Result
Development of private sector associations with specific emphasis on key sectoral support programs. The high degree of unrest in many of the ASARECA countries has had a major effect on the capacity and strength of the business community. In many countries, the private sector has relatively poor sector linkages and is not well linked to the public research sector.	**Improved sectoral support with increased linkage between research, private sector with a focus on commercialization, and vertical diversification, i.e., added value.** Countries in the ASARECA region need to become ever more competitive and also need to consider the merits of specialization on specific commodities for target markets. The success of such a strategy is closely related to the strength of the actors within a sector to work together on particular areas of common intervention and need. There are numerous local examples of growers working together to make the supply chain more efficient, such as shared use of cold chain facilities or collective marketing of export goods. Similar gains may be made in other sectors at both the large and small-scale level of operator. However, this needs to be investigated and measures taken for sector-based agents to interact and find ways of addressing common problems.	Private–public sector consortiums that are developed through dialog between key partners in the selected sectors. Private-sector agents in coffee, cotton, tea, fish, livestock, dairy, horticulture, agrotourism etc., working in collaboration with public-sector agents in policy analysis, research, and development.	Workshops on new technologies for the private sector. Trade fairs on specific issues. Enhanced political support to agricultural fairs and shows to attract greater participation from the private sector. Development of business centers to act as an interface for researchers and private-sector agents. Development of novel approaches to bringing more effective partnerships between the public and private-sector agents such that ideas can be discussed and new, cost-effective solutions identified, tested, and disseminated to the sector.	• Provision of technical and business information to agents and agencies involved with a particular sector. • Rationalization of the sector. • Development of associations and apex groups that work for and represent the needs of the sector. • Strengthened, more independent agricultural sectors that can communicate common objective and priorities. • Ability of partners in the sector to cooperate for mutual benefit and for apex groups to lobby for targeted assistance from public sector.

Annex V. Tables.

Table 1. Economic indicators.

	Burundi	DRC	Eritrea	Ethiopia	Kenya	Madagascar	Rwanda	Sudan	Tanzania	Uganda
Land area '000 km^2	26	2267	101	1000	569	582	25	2367	884	200
Population million (yr 2000)	6.8	51.4	4.1	64.3	30.1	15.5	8.5	29.7	33.7	22.1
Pop growth rate % (annual)	1.9	3.2	2.6	2.4	2.2	3.1	2.4	2.3	2.3	2.7
Pop density (people per sq. km)	265.1	22.7	40.6	64.3	52.8	26.7	344.9	12.5	38.1	110.5
Life expectancy at birth (years)	42.1	45.8	50.4	42.4	47.7	54.3	40	55.5	45	42.1
Fertility rate, total (births per woman)	6.1	6.2	5.6	6.3	4.5	5.6	6	4.5	5.4	6.4
Infant mortality rate per 1000 live births	104.8	85	60.4	103.7	76.5	149	123.2	67.2	94.8	88.3
Child malnutrition % underweight 89–95	–	35	–	47	23	32	28	–	28	23
Primary school enrolment (% net) '96	–	–	30.4	32	–	–	–	–	47.8	–
Illiteracy rate, male adults 15+ (%) '2000	43.4	26.5	32.6	56.4	11.1	26.5	26.4	30.2	15.3	22.4
Illiteracy rate, female adults 15+ (%) '2000	59.3	49.7	59.3	66.8	24	40.3	39.8	53.7	32.9	43.1
GNI per capita (US$) yr 2000	140	–	170	100	360	260	230	320	280	310
Inflation, GDP deflator (% annual) '2000	22.9	–	17.7	1.3	6.2	7.1	1	8	8.7	2.8
Agriculture, value added (% of GDP)'2000	50.7	–	–	–	23.2	30	45.7	–	44.8	44.4
Forest area (sq km) '2000	940	1.4million	15 850	45 930	171 000	117 300	3070	616 300	388 100	41 900
Total external debt (million $) '2000	1114	11 410	300	5481	6343	4359	1356	15 636	7104	3668
Total debt/GDP (yr 2000)	161.7	251.3	49.4	85.9	61.3	112	77	140	78.7	59.1
Total debt service/exports '2000	42	3.3	1.3	54	23.5	7	46.9	3.3	15.3	25.5
GDP average annual growth										
1990–2000	–2.6	–	3.2	4.7	2.1	2.0	–0.2	8.1	2.9	7.1
2000–2004	2.7	–	9.3	6.8	4.4	6.4	6.3	6.2	6.2	6.3
Terms of trade (1995 = 100)	–	158	–	66	78	84	102	98	98	56

Sources: World Bank, UNCTAD.

Table 2. Total agricultural production in 2000.

	Production in 2000 (c 1000 tonnes)					(Numbers × 1000)				
	Cereals	Root crops	Pulses	Oil crops	Fisheries	Cattle	Sheep	Goats	Pigs	Fuel/Charcoal
Burundi	245.5	1458.4	219	–	20.2	66.5	54	285	82	5420
DRC	1621.5	16 747	168	–	159.1	86.6	553.2	1650	820	64 902
Eritrea	182	120	40.8	15	–	145	560	600	–	2244
Ethiopia	7844.5	4140	747	55	–	2630	7770	7390	27.6	87 471
Kenya	2196.8	1855	230	32	121.5	1847	2000	2900	120	19 658
Madagascar	2459.9	3152	98.8	0.07	36	1160	260	466	630	9637
Rwanda	239.7	2124	230.6	–	3.1	190	100	400	48	7500
Sudan	3291.5	168.5	253	–	42.9	2600	8950	9077	–	16 680
Tanzania	3909	6497.9	433	24	280	2085	980	2090	245	20 786
Uganda	2111	7842	585.3	28	195.1	645	693	1295	902	34 090
Total	24 101.4	44 104.8	3005.5	154.07	857.9	11 455.1	21 920.2	26 153	2874.6	268 388

Source: FAO database, 2001.

Table 3. Demographic trends for the 10 countries of the ECA subregion.

	Total population		Urban population	
	Yr 2000 in millions (% annual growth rate)	2010 millions	Yr 2000 (% of total)	2010 (% of total)
Burundi	6.8 (1.9%)	9.97	9	1.29 (12.45%)
DRC	51.4 (3.2%)	71.50	30.3	22.8 (31.6%)
Eritrea	4.1 (2.6%)	5.22	18.7	1.18 (22.3%)
Ethiopia	64.3 (2.4%)	85.85	17.6	14.70 (16.9%)
Kenya	30.1 (2.2%)	48.61	33.1	18.26 (38.2%)
Madagascar	15.5 (3.1%)	25.89	29.6	9.61 (36.2%)
Rwanda	8.5 (2.4%)	11.93	6.2	0.94 (7.7%)
Sudan	29.7 (2.3%)	41.9	36.1	13.4 (31.4%)
Tanzania	33.7 (2.3%)	46.90	32.9	18.4 (38%)
Uganda	22.1 (2.7%)	31.00	14.2	5.0 (15.9%)
Total	266.2	378.77		99.93
% of SSA		41.5%		

Source: World Bank statistical data.

Table 4. Basic agricultural statistics for the countries of the ECA subregion.

	Agricultural exports (millions of US$)		Cereal imports (tonnes × 10^3)		Food aid tonnes × 10^3		Commercial food imports (excl. fish) mt× 10^3		Fertilizer imports (mt ×10^3	Cereal outputs internal × 10^3
	1992	1999	1992	1999	1992	–	1992	1999	1999	1999
Burundi	69	54.2	19	14.8	1		18	75	3.99	264.5
DRC	83	47.8	219	268.9	121		98	78	0.74	1649.2
Eritrea	–	3.2		79.6				–	10.9	319
Ethiopia	168	421.5	1047	645.7	994		53	–	167.87	8406.5
Kenya	612	1029.2	642	753.1	287		355	204	153.2	2643.6
Madagascar	151	80.5	145	166.6	58		87	157	4.5	2829
Rwanda	60	47.5	14	170.5	10		4	444	0.3	179.1
Sudan	371	348.1	654	656.4	586		90	86	91.6	3066
Tanzania	272	305.8	212	601	15		197	565	20.98	3977
Uganda	136	408.3	37	144.5	28		9	542	4.48	1825
Total	1922	2746.1	2989	3501.1	2100		911	2151	458.56	25 158.9
Total for SSA	7345	10570	13173	13 675	4411					
ECA as % of SSA	26.16	25.98	22.69	25.60	47.61					

Source: FAO statistical data, 2001.

Annex VI. Production statistics (FAO).

	Burundi	DRC	Eritrea	Ethiopia	Madagascar	Kenya	Rwanda	Sudan	Tanzania	Uganda
Population	6.8	51.4	4.1	64.3	30.1	15.5	8.5	29.7	33.7	22.1
Percentage population in agriculture	90.8	65.8	78.8	85.3	77.7					
	75.9	91.2	67.9	83	83.1					
Wheat	9000	7000	12 000	12 000	350,000	2000	6000	550,000	61,000	9000
Paddy rice	42 000	430 000	–	–	60 000	2 600 000	6000	1000	681 000	83 000
Barley	–	–	35 000	1 570 000	65 000	–	–	–	3000	–
Maize	144,000	11 000 000	10 000	3 250 000	2 223 000	180 000	71 000	94 000	2 638 000	939 000
Millet	11 000	39 000	35 000	360 000	59 000	–	1000	491 000	338 000	640 000
Sorghum	65 000	55 000	80 000	1 980 000	140 000	55 000	85 000	4 104 000	609 000	405 000
Potato	42 000	35 000	40 000	350 000	205 000	280 000	150 000	17 000	245 000	390 000
Sweetpotato	670 000	410 000	–	155 000	635 000	500 000	1 100 000	8000	8000	2 250 000
Cassava	549 000	8 000 000	–	–	860 000	2 450 000	250 000	10 000	5 912 000	2 650 000
Yam	8000	315 000	–	263 000	NA	–	4000	126 000	10 000	–
Taro	95 000	41 000	–	–	NA	140 000	39 000	–	–	–
Dry beans	288 000	125 000	4000	390 000	NA	70 000	105 000	5000	233 000	387 000
Broad beans	–	–	2000	281 000	–	–	–	45 000		–
Dry pea	36 000	66 000	2000	150 000	NA	–	2000	–	23 000	17 000
Chick pea	–	–	4000	126 000	–	–	–	2000	23 000	3000
Lentils	–	–	3000	34 000	–	1000	–	–	–	–
Soya	1000	13 000	–	21 000	NA	–	8000	–	2000	13 000
Groundnut	10 000	580 000	NA	54 000	14 000	37 000	8000	430 000	74 000	144 000
Castor oil	–	–	–	14 000	4000	2000	–	7000	5000	1000
Sunflower	–	–	–	NA	150 000	–	–	66 000	33 000	3000
Sesame	–	–	7000	31 000	12 000	–	–	160 000	27 000	72 000
Linseed	–	–	3000	1000	1000	–	–	–	5000	–
Safflower	–	–	–	35 000	–	–	–	–	-	–
Seed cotton	3000	77 000	–	46 000	12 000	30 000	–	325 000	255 000	39 000
Cotton lint	1000	10 000	–	10 000	31 000	10 000	–	100 000	50 000	10 000
Jute	–	–	–	NA	–	NA	–	NA	NA	–
Sisal	–	–	–	1000	34 000	17 000	–	–	32 000	–
Copra	–	–	–	–	7000	10 000	–	–	375 000	–
Coconut	–	–	–	–	43 000	82 000	–	–	34 000	–
Palm Kernel	1000	72 000	–	–	–	–	–	–	7000	–

Annex VI. Production statistics (FAO) cont.

	Burundi	DRC	Eritrea	Ethiopia	Madagascar	Kenya	Rwanda	Sudan	Tanzania	Uganda
Palm oil	2000	181 000	–	–	–	–	–	–	5000	–
Melon	NA	NA	–	NA	NA	NA	NA	NA	NA	NA
Treenut	NA	NA	–	NA	NA	NA	–	–	NA	–
Cabbage	NA	NA	–	NA	NA	–	–	–	–	–
Tomato	NA	NA	NA	32 000	NA	NA	–	4000	22 000	11 000
Eggplant	NA	NA	–	–	–	NA	–	NA	NA	–
Chilie	NA	NA	–	NA	–	–	–	NA	–	NA
Sugar	–	1 300 000	–	110 000	4 810 000	–	10 000	4 900 000	1 560 000	1 450 000
Onion	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Green bean	–	–	–	–	NA	NA	–	–	NA	–
Cashew	–	–	–	–	15 000	5000	–	–	82 000	–
Garlic	NA	NA	–	–	NA	NA	–	–	NA	–
Carrot	NA	NA	–	–	NA	NA	–	–	–	–
Pear	–	–	–	–	NA	NA	–	–	–	–
Orange	-	–	–	NA	NA	NA	–	NA	–	NA
Grapefruit	–	–	–	–	NA	NA	–	NA	NA	–
Avocado	NA	NA	–	–	NA	NA	–	–	NA	–
Banana and plantain	1 544 000	412 000	–	80 000	–	230 000	2 105 000	139 000	631 000	10 000 000
Coffee	25 000	60 000	–	230 000	98 000	72 000	21 000	–	52 000	257 000
Cocoa	–	7000	–	–	–	4000	–	–	10 000	1000
Tobacco	1000	3000	–	4000	10 000	4000	4000	–	29 000	7000
Tea	5000	3000	–	1000	255 000	–	12 000	–	23 000	17 000
Pyrethrum	–	–	–	–	NA	–	–	–	NA	–

Quantities in metric tonnes, NA = Produced but no figures available; – = No significant production.

Acronyms and Abbreviations

ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance
ACP	African, Caribbean, Pacific
ACPC	Association of Coffee Producing Countries
AGOA	African Growth and Opportunity Act
AoA	Agreement on Agriculture
ASARECA	Association for Strengthening Agricultural Research in East and Central Africa
CARE	Cooperative for Assistance and Relief Everywhere
CBOs	Community based organizations
CDR	Center for Development Research
CIAT	Centro Internacional de Agricultura Tropical
CLUSA	Cooperative League of the USA
CMIS	Commodity Exchange and Marketing Information Service
COMESA	Common Market for Eastern and Southern Africa
CTA	Technical Center for Agricultural and Rural Cooperation
DANIDA	Danish International Development Agency
DC	Developed Country
DRC	Democratic Republic of Congo
DREAM	Dynamic Research EvaluAtion for Management (computer program)
EBA	Everything but Arms
ECA	East and Central Africa
EU	European Union
FAO	Food and Agriculture Organization of the UN
FDI	foreign direct investment
FEWSNET	Famine Early Warning System Network
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GNI	gross national income
GSP	General System of Preferences
HIPC	heavily indebted poor countries
ICA	International Coffee Agreement
ICO	International Coffee Organization
IFPRI	International food Policy Research Institute
IMF	International Monetary Fund
IITA	International Institute of Tropical Agriculture
ISI	import substitution
KACE	Kenya Agricultural Commodity Exchange
LDCs	least developed countries
MIS	Market Information Service
NAFTA	North America Free Trade Agreement
NARS	national agricultural research systems
NFIDCs	net food importing developing countries
NGOs	nongovernmental organizations
OECD	Organization for Economic Cooperation and Development
PMA	Plan for the Modernisation of Agriculture (Uganda)
R&D	research and development
REPA	Regional Economic Partnership Agreements
SADC	Southern Africa Development Community
SAPs	structural adjustment programs
SPS	sanitary and phytosanitary standards
SPS	Special Preference Sugar
SQL	structured query language (computer program)
TBT	technical barriers to trade
TOR	terms of reference
UN	United Nations
UNCTAD	United Nations Council for Trade and Development
UR	Uruguay Round
USAID	US Agency for International Development
WB	World Bank
WTO	World Trade Organization