

THE IMPACT OF GLOBALISATION ON THE AGRICULTURAL SECTORS OF AFRICAN COUNTRIES

SUMMARY

Globalisation 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 development and economic output.

The nations have to reduce the high levels of protection between trading blocks of countries and to adopt policies to liberalise 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 liberalisation and openness leads to growth. It is also recognised, 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 African countries have recognised 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 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 African competitive global agricultural market have presented the countries with some serious difficulties.

A combination of the impact of structural adjustment programmes and partial reform of the rules governing international trade has reduced the prices of primary commodities exported by African countries and caused an increase in imports of agricultural products from more competitive producers, some of which remain highly subsidised in their country of origin.

African 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.

We 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:-

1. Strengthening negotiating capacity in trade talks

African countries have been disappointed **by the effects of decisions made in previous WTO and ACP-EU negotiations**. African countries are poorly represented in these and other multilateral and bilateral talks and they lack of capacity to analyse 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 analyse the interests of their stakeholder groups and to establish appropriate negotiating positions.

The negotiators need to be directly linked to policy makers and to the line Ministries of Trade, Agriculture and Finance, such that informed decisions can be made rapidly and effectively.

2. Over-supply of primary product exports

Market liberalisation policies have led to a catastrophic fall in the prices of many of the agricultural products exported by African countries. The plunge in prices has been caused by systemic over-production stimulated by components of structural adjustment programmes.

African countries that produce and export raw commodities such as coffee, sugar, tea, cotton etc. through small-scale production systems (small scale farmers) 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.

Efforts should be made to find common cause 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.

3. Trade protection

African member countries have agreed to limit the protection given to domestic farming. Greater efforts should be made to increase control of porous borders to discourage unwanted imports and to collect tax revenue. **The dumping of heavily subsidised agricultural commodities from developed countries should be actively opposed where such imports disrupt local farming economies.** These efforts need to be pursued seriously

Efforts should also be made to analyse the impact of imports of food aid and food monetisation 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.

4. Production of Added-value products

The prices of primary agricultural commodities will continue to fall in the foreseeable future. Unless the mix of industrial activity is changed and economic growth will not occur. The “Africa Growth Opportunity Act” and other similar market-access measures now offer LDC countries in Africa the opportunity to attract investment into the region to improve the quality and range of products and, more importantly, to produce added-value products made from locally produced raw materials

5. Establishing an Agricultural Market Analysis Unit

An Agricultural Market Analysis Unit should be established in each African country. This unit would be concerned with co-ordinating and developing policy on the development of market-orientated strategy in agriculture and setting policy guidelines for agricultural research.

6. Market Education Programme

Many actors in the agricultural sectors in African countries are still not familiar with the idea of competitive markets. A National Market Education Programme should be established targeted, primarily, the farmers, traders and agricultural product processors. Education, Trade, farmers’ and traders’ associations and other private sector actors and with extension services.

The programme 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.

7. Market Information Services/Commodity Exchange

Many typical, small and medium-scale farmers, traders and processors in African 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. Market Information Services need to be established at local, national and regional level to gather, process and disseminate market information in the appropriate language of intended recipients. Such services need to be fully co-ordinated with each other and involve full participation of stakeholders.

8. Agricultural research and extension and services

Research and extension services need to continue with their vital role in controlling plant and animal disease and pests, discovering and distributing new varieties, training farmers to improve their technical abilities

The farmers 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 globalisation.

9. Goods that can be compete with locally made products.

Many African 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 labour costs

10. Market activity legalities

Market manipulation and collusion among traders to the detriment of farmers, consumers and exporters are widespread practices in African countries. In some countries, road tolls and taxes are arbitrarily applied and often restrict trade and increase transaction costs of the end product.

THE IMPACT OF GLOBALISATION ON THE AGRICULTURAL SECTORS OF EAST AND CENTRAL AFRICAN COUNTRIES

African countries are dependent on agriculture in many ways. The majority of the population of these countries are employed in the agricultural sector especially women. 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 and economic survival. 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 liberalising their economies, agriculture would prosper and provide the necessary growth to provide investment to improve the country's infrastructure, to form the foundation for industrialisation and to improve public services.

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 materialised. This may be due, in part, to the difficulties of complying with the high quality standards required by many importing countries in Africa.

It has now become clear that although a link between economic growth and the liberalisation 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.

Just as liberalisation 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 the private sector trading networks needed in a modern economy.

Some actors in the agricultural sector have seen little benefit from the liberalisation process, however.

Communities of small-scale, isolated farmers (which make up the majority of the population in many African countries) find it more difficult to obtain inputs and credit as Agricultural loans are up to 18% per annum.

Conflict Areas

Burundi, Eritrea, Ethiopia, Democratic Republic of the Congo, 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 labour to military activities and neglect of, and damage to, farms and factories.

Millions of African 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 programmes and many of these countries have lost their access to aid programmes and investment opportunities.

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.

Development strategies in Agriculture

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

These loans were not granted without strings attached, however. Most African countries were obliged to liberalise their economies by adopting significant policy changes often applied in packages known as Structural Adjustment Programmes (SAPs).

- ☐ 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 privatise 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),
- ☐ and to boost exports.

Trade agreements

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.

Farm-gate prices and liberalisation

The devaluation of local currencies represented one of the most important ingredients of Structural Adjustment Programmes (SAPs). It was thought that devaluation would increase the income, measured in local currency, of farmers who exported their products. 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.

Processing

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 African countries as lint (cotton after ginning) which is cheaper to transport than more highly processed products.

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 also sometimes, cutting and pre-cooking of fruit and vegetables. This element of processing tends to be confined to larger farms and packing-houses which can ensure better quality control. The added-value is, therefore, captured by only a few companies, usually foreign or racial minority-owned.

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

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-equalisation subsidies operated by several African governments the supply of inputs to remote areas has dwindled significantly.

Co-operative Societies

Some organisations 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.

Micro-credit schemes have also been utilised for input supply. The cost of administering these schemes often renders them sub-commercial, however, and some donors apply 'no subsidy conditionality' to loans which restricts their use for this purpose.

Seeds

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 non-hybrid maize, millet, pulses, sorghum, oilseeds and potatoes and bananas.

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

Research and Extension Service

Many research and extension services have been criticised for poor management and a lack of relevance of their work. Many are over-staffed but offering 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.

Agricultural Infrastructure

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 on agricultural development. Traders are often the only owners of trucks in these areas which strengthens their market power over farmers.

Agricultural Marketing infrastructure

Smaller-scale traders face many problems including transport difficulties in the 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.

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, atomised 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.

AGRICULTURAL MARKETS

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 sales conditions. Often, the details of the final transaction are not known, except to the buyer and seller.

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.

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 non-efficient 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 role of agricultural research and development programmes. Banana Wilt

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 organisations 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 market for those products.

Agricultural research and development organisations must link their programmes 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 programmes for farmers with a marketable surplus must be informed by a detailed analysis of local market conditions.

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 money-lenders and traders who can take advantage of their inability to store their produce in periods of low prices. 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 micro-credit schemes but these need to be extended and further subsidised 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 encourage more efficient farming activities.