Regoverning Markets
Small-scale producers in modern agrifood markets

# Regional Synthesis
## Sub-Saharan Africa

# Restructuring food markets in the sub-Saharan Africa region: Dynamics in the context of the fresh produce sub-sector

## A synthesis of country findings

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# Restructuring food markets in the sub-Saharan Africa region: Dynamics in context of the fresh produce subsector

## A synthesis of country findings

Part of the Regoverning Markets study in Africa which forms part of a global initiative of 18 countries in five regions

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## EXECUTIVE SUMMARY

The Regoverning Markets study in sub-Saharan Africa forms part of a global initiative in five regions that was designed to identify the factors involved in including small-scale producers in dynamically restructuring regional and local agri-food markets. The programme seeks to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in the sector so as to ensure that small scale farmers can better prepare and shield themselves against exclusion. This synthesis paper deals with the dynamics of agri-food markets in sub-Saharan Africa (SSA), focusing on evaluating the extent to which food markets have restructured, including the subsequent implications for smallholder agriculture. This study draws extensively from the Regoverning Markets studies in Eastern, Western and Southern Africa.

SSA has vast agricultural potential, but it has failed to realise this potential, mainly due to a number of challenges being faced by farmers on the subcontinent. These challenges inlcude low productivity; high production and marketing risks, including food insecurity, widespread poverty, hunger, and malnutrition; as well as insufficient investment in the agricultural sector from both the public and the private sectors. The growth potential lies in transforming smallholder agriculture from subsistence production systems to commercial production systems. Smallholder agriculture is the backbone of rural livelihoods in SSA and contributes significantly to most economies in the region.

The restructuring of food markets in SSA has been slow and uneven across the different regions and different countries. East and Southern Africa entered the restructuring process much earlier than West Africa. Most countries in SSA have experienced an increase in the number of retail chains and agro-processors. The restructuring process in SSA is driven by factors such as income growth, increasing disposable incomes, population growth, urbanisation, and changes in consumer tastes and preferences. This process entailed the emergence and disappearance of some supply chain actors. There has been partial displacement of the wholesale function and the informal markets specifically by the retail function. The displacement process has not been uniform across all countries of the region. The wholesale function and the informal sector are also experiencing some levels of expansion and transformation. The rise of supermarkets in SSA started in East and Southern Africa and spread to West Africa. Supermarkets are playing an increasingly dominant role in food retail due to the increased demand for quality and food safety set by an expanding middle class in SSA. However, in most regions other than South Africa, and especially in West Africa, food sales through supermarkets have remained minimal, while street markets and informal vendors are still the main conduits of food. Thus, the impact of supermarkets on smallholder agriculture are not as severe as originally postulated by most researchers in other regions.

Agro-processors have also expanded throughout the subcontinent in a similar fashion to that of supermarkets. Most large agro-processing initiatives in SSA have been a result of FDI, especially from South Africa and Europe. The agro-processing sector in SSA has increased in dominance, propelled by similar drivers to those driving the expansion of the retail sector. These drivers include an increased demand for processed goods, which has largely resulted from urbanisation, changes in consumption patterns, and population growth. The advent of agro-processors has had a significant impact on the way in which food markets function in SSA. Most large agro-processing companies shifted their procurement channels from wholesalers to preferred suppliers who are part of their growing programs. There are various forms of growing contracts that are used by processors; in most countries formal written contracts are used. The use of contracts has changed the governance of agricultural supply chains in SSA from spot transactions to hierarchies. It has brought about a number of challenges regarding supply chain relationships, especially between smallholder farmers and agro-processors. These include the withholding of supplies by farmers and late payments by processors. Several studies show that these supply contracts are better suited to large-scale farmers than small scale farmers. Despite this, there are intermediaries especially in Western Africa which have been developed to act as conduits between smallholder farmers and agro-processors.

Dynamic food markets (supermarkets and processors) in SSA are still in their infancy with regard to growth and expansion. The demand for food in urban areas is limited by low purchasing power, and most consumers have a strong preference for traditional foods that are suited to their diverse social and ethnic backgrounds. Despite this, the demand for processed and quality fresh food is growing, especially due to the recent increase in the middle class across the subcontinent .Both formal and informal food markets are changing constantly, driven by lifestyle changes brought about by urbanisation, income growth, and democracy and changing family structures. The transformation of agri-food markets in SSA has been characterised by different extents of 'supermarketisation', especially in the urban areas.

Overall, the restructuring of food markets in SSA has brought several opportunities and challenges for smallholder farmers on the subcontinent. The implication of this transformation is mixed. Firstly it is positive with regards to consumers, who can now access quality food products (fresh and processed); the second positive aspect is that it has created new supply channels for farmers. The process favours large-scale farmers over small scale farmers. The negative aspects are that the 'supermarketisation' of food markets is displacing the wholesale function and the informal sectors, which are the main supply channels used by for smallholder farmers in SSA. In addition, smallholder farmers are inhibited from participating in modern markets, due to low productivity, poor quality of their produce, and high transaction costs in terms of accessing markets, among many other factors.

There are benefits for those who can successfully access and compete in the transformed markets, but there are also serious threats to those who cannot adapt. The restructured market offers opportunities for small farmers to expand through extensive support in terms of access to finance, technical know how and a ready market. On the other hand, markets have become more demanding, and structural adjustment and privatisation programs have left many smallholder farmers without adequate access to key inputs and support services, including farm credit. State agencies no longer provide significant direct marketing and service functions to smallholder farmers, leaving a vacuum that in many countries the private sector has yet to fill. This is worsened by the volatility of commodity prices under-investment by the private sector, the HIV/Aids pandemic, a decaying infrastructure, and sociopolitical unrest prevalent in the subcontinent. The overall conclusion of many studies on this topic is that there is need for a total shift in mindset among smallholder farmers in SSA, coupled with sustained and coordinated support from external actors, such as the private sector, donors, NGOs and the public sector.

Inefficiencies and informalities characterising supply chains dominated by small-scale producers could be overcome by producers being organized into producer business groups, either in the form of cooperatives or companies. Inclusion requires that farmers be organized into groups and networks that also allow produce to be pooled in order to fulfil the desired consistency of volumes and quality at the times that they are required, which a single farmer may not be able to meet. The same networks give farmers collective bargaining power to negotiate better prices and conditions in a negotiating forum. Through collective action, farmers are able to access market information and set up regulatory bodies that ensure compliance with private grades and standards.

To redress the negative effects of the restructuring process, there is a need for all the stakeholders – the public and private sectors, NGOs, and farmers – to work in unison.to address the issues of exclusion and inclusion. The private sector should be innovative in terms of the way they deal with small farmers through business models that allow them to deal with small farmers without compromising viability. There is a need for collaboration between the public and the private sector in terms of linking smallholder farmers to formal markets. Empowerment of smallholder farmers is a public good; thus governments and donor organisations in the region should prioritise designing policies, programs and projects that enable integration of smallholder agriculture into formal agribusinesses. There is a need to invest in more research on the restructuring phenomenon, especially on innovations for including small scale farmers', focusing on the role of public policy, business models, and collective action. Regional projects and programs such as FANPARN, AERC, COMESA, FOOFNET, AGRA, IFPRI and FARA should include this topic in their research portfolios. There is also a need for collaborative research and capacity building initiatives between international and national research initiatives in SSA on issues relating to the dynamics of food markets in SSA.

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# 1. INTRODUCTION

## 1.1 Purpose of report

The Regoverning Markets study in sub-Saharan Africa forms part of a global initiative of 18 countries in five regions. The Regoverning Markets programme is a 2.5-year, GBP2 million programme of collaborative research and policy support, designed to understand the keys to inclusion of small-scale producers in dynamically restructuring regional and local agri-food markets. The programme seeks to analyse market concentration in the food processing and retail sectors, as well as to predict future dynamics in these sectors so as to ensure that small-scale farmers can better prepare and shield themselves against exclusion. This paper focuses on including the poor in ways that could contribute to reducing poverty and underdevelopment in sub-Saharan Africa. Coordinated by the International Institute for Environment and Development (IIED) in the UK (regoverningmarkets.org), the programme involves an international consortium and learning network of more than 14 organisations, committed to cross-country comparisons within regions and across regions, reflecting varying degrees of restructuring within the food industry. Major donors are DFID, IDRC, CIDA, ICCO, Cordaid and USAID (Louw, et al., 2007a).

Sub-Saharan Africa (SSA) has been the focus of many political debates on political, economic, social and economic instability; on trade issues, poverty, low levels of competitiveness, and corruption, et cetera. Extensive research projects have been undertaken in Africa, including conferences and symposiums. In the past decades stakeholders in and outside Africa have often been disillusioned with the lack of policy and the lack of capability to create an environment that is conducive to business and to implementing strategies and research outcomes. Despite high expectations, influencing policy is complicated. Because of differing priorities among the affected parties, it is difficult to get anything moving before all the reports and outcomes are in place, including creating awareness, influencing stakeholders' decisions, networking and negotiations. Creating and having the right network requires a substantial amount of time and patience. There is thus need for persistence, but this is problematic, given the limited time and financial resources of the project. This illustrates the prevalence of network structure problems and political power plays by the public sector in developing countries, as well as generalisations during project conceptualisation. In many countries in SSA, government appears to have its own agenda. Flaws in the policy-making structures of developing countries were not considered in the latter, as political driving forces should have been taken into consideration. The African Synthesis project focuses on complex and dynamic issues and insights. It is also worth noting that diverse people and cultures are dealt with in selected countries and in each region.

The purpose of this project is to provide an insight into the development of agribusiness in the region, focusing on the restructuring of food markets in the different SSA regions. This paper draws on related research done over the past decade regarding the dynamics of agricultural food markets in selected African countries. Emphasis is placed on evaluating the extent to which agri-food markets have been restructured on the Afriican continent and the implications these trends have for the smallholder in agriculture. Work done by the Regoverning Markets project in Southern, Eastern, Western and North Africa forms the backbone of this study. In addition to this, the project draws on parallel projects that have dealt with the same subject matter.

The intended result of this project is to create an understanding of the agro-industrialisation process on this continent, focusing on how smallholder agriculture can be linked to formal agribusiness ventures, given the fact that this agricultural sector has historically been excluded from formal agribusiness. In addition to the synthesis of empirical research works that is undertaken, a synthesis of policy analyses is also undertaken. This element of the study takes stock of selected countries' positions (past and current) regarding the agro-industrialisation process. It focuses on policy efforts aimed at linking smallholder farmers to formal agribusinesses. Included in this section are current policy initiatives and dialogues being spearheaded by the various institutions (SADC, COMESA, ECOWAS, CAADP, FARA, AGRA and NEPAD). Given these dynamic processing, wholesale, and retail market structural changes, the project reviews and critically assesses changing market structures and attempts to align itself directly with the CAADP pillar 4. It could also be linked to NEPAD (and/or the AU), COMESA and FARA, et cetera. The project takes stock of the current body of knowledge and research initiatives, which have been launched to examine the restructuring of the food markets phenomenon in the selected countries of the African continent.

This study also draws extensively on the Regoverning Markets studies in Eastern, Southern and Northern Africa, which form part of the global initiatives of the Regoverning Markets programme. It focuses on the inclusion of the poor in ways that could contribute to reducing poverty and underdevelopment on the continent. Significant ground has been covered in Phases 1 and 2 of the Regoverning Markets project research, and other related initiatives. A need has arisen for the creation of a united picture on the state of agri-food markets in SSA, including the extent to which formal agribusinesses are being linked to smallholder agriculture.

The African Synthesis will make it possible to verify research gaps in the selected countries in the regions, as well as to ensure the continuity of the project by establishing a formal institution, with its base at the Department of Agricultural Economics, Extension and Rural Development at the University of Pretoria under the ABSA Chair in Agribusiness, in collaboration with researchers from Kenya. This will be a team effort by the Regoverning Markets project's participating countries. A synthesis of agri-food marketing systems in each region will be developed, based on the structure followed by the Regoverning Markets project and sub-projects. In this way the project will acknowledge diverse country-specific cultural insights, as well as regional diversities that are new and unique to the continent. This is especially so in light of the new dynamics and focus shifts resulting from South Africa being established as the gateway to Africa and its aggressive Foreign Direct Investment (FDI) into Africa and the sub-Saharan region.

In the broader context, regional and continental specifics and insights could get lost. The project is aimed at creating a greater awareness of the continent and its regional issues, especially among its partners. Therefore, a synthesis paper will capture the unique dynamics of Africa and set the stage for the development of a formal African institution, which will act as a conduit for regional capacity building. The paper will also encourage and promote funding from other sources, including the Department For International Development (DFID), for further research.

It should be noted that although the importance of issues such as the proliferation of the HIV/Aids pandemic; trade issues (influx of cheap imports from China, dumping, tariffs and tax rates, and European Union (EU) and United States of America's farming subsidies); the political unrest in Zimbabwe and the Democratic Republic of Congo (DR Congo); biofuels; and genetically modified foods (GM foods) is acknowledged, this paper will focus on changes to agri-food systems, the expansion of supermarkets and the inclusion of small-scale producers in the dynamics of restructuring regional and local agri-food markets.

## 1.2 Sub-Saharan Africa (SSA)

Sub-Saharan Africa is the area of the African continent that lies south of the Sahara. SSA covers an area of 24.3 million square kilometres. The population of sub-Saharan Africa was 770.3 million in 2006 and the current growth rate is 2.3 percent. The UN predicts a population of nearly 1.5 billion for the region in 2050. Generally, SSA is the poorest region in the world, suffering from the effects of economic mismanagement, internal corruption and inter-ethnic conflict. The region contains many of the least developed countries in the world (DFID, 2007a).


Figure 1.1: Map of SSA
(Wikipedia, 2007).

There are 42 countries located on the sub-Saharan African mainland and six island nations. The classification scheme into which these countries and island nations fall is outlined in Table 1.1

Table 1.1: Countries of SSA

| Central Africa* | East Africa | Southern Africa | West Africa |
|---|---|---|---|
| Democratic Republic of Congo | Sudan | Angola | Benin |
| Republic of Congo | Kenya | Botswana | Burkina Faso |
| Central African Republic | Tanzania | Lesotho | Cameroon |
| Rwanda | Uganda | Malawi | Chad |
| Burundi | Djibouti | Mozambique | Côte d'Ivoire |
| | Eritrea | Namibia | Equatorial Guinea |
| | Ethiopia | South Africa | Gabon |
| | Somalia | Swaziland | The Gambia |
| | Seychelles** | Zambia | Ghana |
| | | Zimbabwe | Guinea |
| | | Comoros** | Guinea-Bissau |
| | | Madagascar** | Liberia |
| | | Mauritius** | Mali |
| | | | Mauritania |
| | | | Niger |
| | | | Nigeria |
| | | | Sao Tome and Principe |
| | | | Senegal |
| | | | Sierra Leone |

Togo
Cape Verde**
São Tomé and Príncipe**

(World Bank, 2008: 16)
*In this study, the central African countries will be considered as forming part of other regions. Rwanda and Burundi will fall under East Africa. DRC will be part of Southern Africa, and Congo and Central African Republic will form part of West Africa.
**These are island nations.

## 1.3 The state of agriculture in the SSA region

The large landmass comprising SSA would imply that member states are endowed with diverse soil and climatic characteristics; hence, they ought to be able to grow a variety of crops and rear a range of animals. However, this potential has been limited by the region's susceptibility to drought, floods, plant pests and animal diseases, the vulnerability of the agricultural population to HIV/Aids, and the inadequacy of its irrigation and transport infrastructure (SADC, 2006). The biggest obstacle to progress in agriculture is probably the transfer of technical skills, followed by the aforementioned inadequate transport infrastructure and then by the appropriate levels of mechanisation. The number of tractors per 100 square kilometres of arable land has declined from 20 to 13 in sub-Saharan Africa since 1989-9, compared with 123 in Latin America and 130 in South Asia. Poor transport and storage infrastructures are directly linked to the failure of products reaching markets (Russia has had similar problems) before they deteriorate. Agri-processing plays a key role in converting basic crops or fresh produce into products that are easier to transport and store for longer periods (milling, extraction and canning) and a shortage of these facilities in the region is also accountable for the high wastage (McBain, 2007; World Bank, 2007:124).

Agriculture in West Africa includes activities in the field of agriculture, silviculture, pastoralism and fishing. In agriculture, families exploit about two to five hectares of fields for breeding cattle and poultry. Food crops such as cereals, cassava, yam, sweet potatoes, cow peas and peanuts are cultivated, as well as export crops like coffee, cocoa, cotton, bananas and pineapples (Kanyili 2003).

The Southern African region's agricultural sector is characterised by the dominance of South Africa in virtually all products, because although the latter only produces 24 percent of the region's contribution to agriculture, it contributes 67 percent of the region's GDP. The entire landmass of the SADC region comprises 906,324,000 square kilometres (30.9%) of the total African landmass. Of this, 226,581,000 hectares (25%) are arable and 48,653,300 hectares are under cultivation. The region has a comparative advantage in the production of maize, wheat, cotton, sugar cane, fruit, bananas, vegetables, citrus, beef, and poultry. Southern Africa's main exports are sugar, fresh fruit and nuts, beverages, fish and tobacco. The Southern African countries outside of South Africa are now capitalising on their advantage in the production of maize, cotton and some vegetables (Louw, et al*.,* 2008).

Agriculture forms the basis of employment and food supply for the majority of the population in East Africa. The situation is more or less the same in most of the developing countries in SSA. It is estimated that over 80 percent of Tanzania's population live in rural areas and depend on agriculture for their livelihood. The principal cash crops in the region are tea, coffee (mainly Arabica, grown by smallholders), sugar, cotton, pyrethrum, sisal, tobacco, pineapples and wattle. There are small industry and manufacturing sectors across the region, based on processing agricultural products and low-technology consumer items. The majority of the food processing industries, which make up the small industry sector, are located in the urban centres. Uganda's exports of clothing, hides, skins, vanilla, vegetables, fruit, cut flowers, and fish are growing, but cotton, tea, and tobacco continue to be the mainstays of its economy. In Kenya, tea is the largest export earner, followed by tourism. However, these industries are periodically adversely affected by security concerns, and further constrained by a deteriorating transport infrastructure. Rwanda also has a brewery industry, but the recent turmoil has had negative effects on the manufacturing sector, which has only just begun to recover (DFID, 2007b; World Bank, 2007:121).

In Kenya, as in the rest of the region and SSA, agriculture, of which 50 percent is subsistence farming, dominates employment. There is an acute shortage of arable land and uneven distribution has resulted in most farmers working plots of two hectares or less. A shortage of land an annual population growth of 2.9 percent, and rapid urbanisation, place increasing pressure on the ability of current food production and distribution to meet demand at affordable prices. In addition, there is an ecological risk to some of the most fertile areas of western and central Kenya, which are already severely overpopulated. The future of the sugar industry is being threatened by cheap imports from neighbouring countries, following the removal of regional trade barriers implemented by COMESA. Tea, coffee and horticultural products dominate merchandise export revenues. The rearing of livestock is dominant in the semi-arid regions to the north and east. The three-year drought has seriously affected livestock and dairy produce, as it has led to the loss of over 40 percent of Kenya's cattle and 10 to 20 percent of its sheep and goats. Forestry and fishing are being developed with concessional aid. Horticultural growth since the 1980s has been impressive, and particularly so over the past five years, during which growth has doubled. In 1999 horticulture became the second-largest export earner after tea, with flowers making up the largest share (Kanyili 2003; DFID, 2007; World Bank, 2007:120).

## 1.4 The objectives and key research questions of the study

There have been many efforts by different stakeholders to create market links for poor farmers, but less effort has been placed on developing relevant intervention frameworks backed by sound economic theory. This paper's main objective is to understand the keys to the inclusion of small-scale producers in the dynamic restructuring of regional and local agri-food markets. An analysis of market concentration on the food processing and retail industries in the sector will further this goal, so as to ensure that small-scale farmers can better prepare and shield themselves against exclusion. This paper attempts to establish the determinants which include the small-scale farmer in ways that could contribute to the eradication of poverty and reduce underdevelopment in the SSA region. To develop a robust market-linked intervention framework there are several questions which first need to be answered. The main research questions are: "What is it that drives the exclusion and inclusion of small-scale farmers in the SSA region, and also what has done so in the past?" and "Can inclusion/exclusion be characterised?" Therefore:

- How is the market restructuring process characterised in the SSA region?
- What changes have been seen in supermarket chains and processing companies over time?
- What changes to supermarket procurement systems have been implemented?
- When did these changes take place, and can different periods can be identified?
- How are supermarkets spreading (e.g. the increase of franchise stores)?
- What is the significance of public policy drivers, private strategy drivers, and other macroeconomic factors (exchange rates, etc)?
- What are the main market channels, and what kind of evolution have they undergone?
- Which market channels have been restructuring and how? Can a proper distinction be made between restructured and traditional markets? (Markets usually considered as traditional can also be dynamic.)
- What spillover is noticeable between market channels driven by the restructuring process?
- What role does the informal sector play in market access for smallholders?

– What are the different types of farmers in the SSA region? To what extent and how have they been affected by market restructuring? Does market restructuring drive their exclusion/ inclusion and is it influenced by policy factors? Which mix between policy and private strategy drivers actually explains exclusion and/or inclusion in different periods?
– What are the major determinants of exclusion for the different farmer types? Is there some discrimination based on equity in addition to discrimination based on efficiency?
– What is the past, current and future role of public policies with regard to the participation of smallholder farmers in restructuring agri-food markets?
– How is policy affecting the procurement system (especially but not only supermarket procurement)?
– Are farmers that benefited from land reform projects in a better position to access dynamic markets in comparison to other small-scale farmers?
– What role can public policy play to redress these issues of inclusion and exclusion?

## 1.5 Research hypothesis

Several research hypotheses have been established, the main one being the following: Historically, many small-scale farmers in the SSA region were excluded from markets through restrictive colonialist legislations. This type of exclusion is peculiar to previously colonialised regions, such as Africa, Asia and Australia, and included restricted access to land and markets. This form of exclusion hampered their development. With the removal of this restrictive legislation, their exclusion from restructured markets continues, however, as a result of the restructured operational anatomy of these markets and the low level of specialisation that forms the point of departure of farmers. These issues are illustrated in Figure 1:

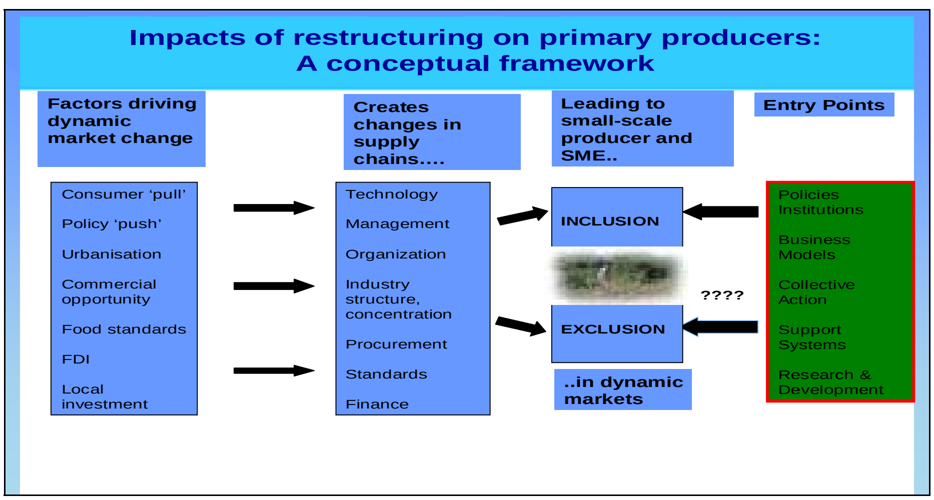


Figure 1.2: Conceptual framework of cause and effect in market restructuring.
Source: Proctor, 2007a

The conceptual framework issues can be broken down into the following hypotheses:

– Increased food quality and safety standards have triggered the exclusion of small-scale farmers.
– The evolution of supermarket procurement policies (like minimum quantities, consistency of supply, minimum quality standards and more recently, preferential procurement) are increasingly excluding small-scale farmers from these market outlets.

- The growth of a self-governing Black middle-income class and rapid urbanisation were instrumental in the recent restructuring and/or organic growth of the supermarket chains in the SSA region.
- The dissemination of franchise stores is triggering greater inclusion of small-scale farmers into supermarket markets in nonurban/rural areas.
- The distance (transport cost) that separates small-scale farmers from possible market channels critically affects their inclusion into restructured chains.
- Privatisation of fresh produce markets (and subsequent changes in their wholesale functions) is leading to the exclusion of small-scale farmers.
- The restructuring of the different fresh produce market channels is not uniform.
- Both White and Black smallholder farmers are subject to exclusion from restructured markets, either on the basis of efficiency or equity, or both.
- Public policies have unforeseen consequences with regard to improving the participation of smallholder farmers in the restructuring of agri-food markets.
- Changes in macroeconomic conditions (e.g. currency exchange rates) indirectly result in exclusion. Exporters who re-enter the domestic market increase competition in this market.
- Generally, due to capital prerequisites and the management intensive nature of agriculture, this sector has a high entry barrier in the SSA region. The level of technology used by modern market channels and food quality standards set by these channels both require experience and training. These are important exclusion issues for entrants and specifically for small-scale farmers in the SSA region.

### 1.6 Organisation of the report

This report is organised into five main sections. The first is a discussion of the political economy of the SSA region, followed by a report on the changes in the regional food system, which covers the overall restructuring of the food market in sub-Saharan Africa, the patterns of this restructuring, its determinants, and the trends in the evolution of procurement systems. This is followed by a section on market access for small-scale farmers, influencing agricultural policy, and finally lessons learned, concluding with insights, findings and recommendations for the region.

## 2. SSA POLITICAL ECONOMY

### 2.1 Introduction

During the past two decades, most countries in sub-Saharan Africa (SSA) have undertaken extensive economic reforms to reverse declining growth rates and reverse balance of payment deficits. First, with respect to macroeconomic instability, the countries of sub-Saharan Africa have recently succeeded in cutting their budget deficits and reducing the rate of increase of money supply and inflation. But arrears, both domestic and external, remain a serious problem in many of the counties. In recent years, events in Gabon and Zimbabwe, in particular, have shown how quickly monetary and fiscal control can be lost. Since 2004, SSA recorded growth rates in the five to six percent range. Growth was equally strong in oil producing and non-oil producing countries, as more than half of non-oil-producing countries grew at 5 percent or more in 2006. The higher growth in the region can be attributed both to positive external developments, such as strong foreign demand, and to strong domestic investment and productivity gains supported by sound economic policies in most countries. However, among other things, policymakers are also confronted with the challenges of population growth, which in SSA clearly exceeds that of other developing regions, and the high incidence of HIV/Aids and malaria. The potential impact of climate change adds to the uncertainty (Hernández-Catá, 2001; UNCTAD, 2007; Louw, et al., 2008).

The West African economies are potentially strong compared to other economies in Africa, since these countries are endowed with important minerals and other natural resources, such as gold, natural gas, and petroleum, among others (Kanyili, 2003). Agriculture is, after mining, fast becoming a major source of income in several West African countries. In 2005, the combined Gross Domestic Product (GDP) for the Economic Community of West African States (ECOWAS) was estimated at $139 billion. Economies within the Community are at varying stages of development, with Nigeria's economy being larger than the combined GDP of all other ECOWAS countries. Nigeria has a GDP of $78 billion. In 2005, the Community's economies grew at a combined weighted average rate of 5.0 percent. Total regional exports, including intra-regional exports, were $68.4 billion in 2005 and ECOWAS had a $17.5 billion trade surplus. The region's major export commodities are energy products (crude oil and refined petroleum products); minerals (gold, diamonds, and bauxite); and agricultural products (cocoa, coffee, groundnuts, and cotton) (EIA, 2003). However, one of the greatest challenges of ECOWAS is the substantial external debt within individual states. Furthermore, internal strife has adversely affected economic performance in several states. Armed conflicts threaten the viability of growth-oriented programmes. This is a difficult problem, but the international community and African institutions like the ECOWAS are now finding ways to support countries involved in peacekeeping operations (for example, Nigeria’s involvement in Sierra Leone) and those that have had to cope with large numbers of refugees (such as Guinea). Organisations like the World Bank and the International Monetary Fund (IMF) are also assisting those countries emerging from armed conflicts to rebuild their physical infrastructures and restore their ability to collect taxes and deliver essential public services (EIA, 2003).

The East African countries have a joint population of 107 million people, and an estimated GDP in 2003 of $29.4 billion (Wikipedia, 2008a). The economies of East African states have different structures and are at various stages of development. Uganda's economy grew at an estimated 5.0 percent in 2006, while Kenya's real GDP grew at 2.3 percent for the same year. Among the countries of the region, the rate of inflation ranged from an estimated 3.3 percent in 2006 in Kenya, to 7.8 percent in Burundi. All of the states in East Africa are dependent on foreign aid, with Rwanda, Tanzania and Uganda classified as Heavily Indebted Poor Countries (HIPCs) by the World Bank. The majority of the countries in East Africa are politically stable. However, politics have been turbulent at times, including the 2007 election riots in Kenya (EIA, 2006).

In 2006, the combined GDP for Southern Africa was approximately $296.4 billion. Similarly, individual national economies are structurally diverse and at varying stages of development. South Africa, the region's most developed economy, has a GDP of $213.1 billion, which is more than double the combined GDP of the other Southern African countries. Challenges of post-war disarmament and reconstruction (in Angola and the DRC), and continuing internal strife (Zimbabwe) have adversely affected economic performance in these states. The Zimbabwean economy has experienced a sharp deterioration over the past five years, with real GDP decreasing by about 30 percent during that period and inflation reaching 600 percent in 2003, before dropping to 124 percent in 2006. The economies of the DRC and Angola have begun to experience GDP growth as peace agreements in both countries begin to take hold (EIA, 2006). Some areas, notably Botswana and South Africa, have experienced economic success. The latter has a wealth of natural resources, being the world's leading producer of both gold and diamonds, and having a well-established legal system. South Africa also has access to financial capital, numerous markets, skilled labour, first world infrastructure in much of the country, and one of the major stock exchanges on the continent, the Johannesburg Stock Exchange (Louw, et al., 2008).

## 2.2 The role of agriculture in SSA

Despite the efforts of most SSA countries to achieve greater economic diversification, agriculture continues to dominate the economies of the majority of member countries. The majority of the economies in the region are agriculture and natural resource based, with up to 80 percent of the population in the SADC region, 48 percent in East Africa, and 50 percent in West Africa being dependent on agriculture for subsistence, employment and income (EIA, 2006). The role of agriculture in poverty reduction, socioeconomic development, income redistribution, food security, and regional integration in SSA cannot be underestimated. Furthermore, agriculture contributes significantly to the GDP of most SSA states and agricultural exports are a major foreign exchange earner with vital forward and backward linkages to other key sectors of the economies. The important and catalytic role of agriculture in contributing to the GDP, export earnings, employment, forward and backward linkages with the non-farming sector, overall growth, and poverty reduction is phenomenal and therefore agricultural-led development is fundamental to cutting hunger and reducing poverty, thereby achieving some of the important millennium development goals (MDGs) (Louw, et al., 2008).

The contribution of agriculture to GDP for most East African countries is more than double that of the rest of SSA and the Pacific regions (Temu & Temu, 2005). Furthermore it is observed that the GDP per capita for the countries that are more dependent on agriculture is lower than those that are dependent on other industries. In East Africa, Uganda' agricultural contribution to GDP is the highest percentage, which stands at 49 percent whereas Kenya's agricultural sector only contributes 27 percent to GDP. Despite having diversified economies, agriculture still contributes significantly to GDP in the majority of West African countries. In Cameroon, agriculture contributes about 44 percent to GDP, while for some countries such as Senegal, it contributes about 19 percent.

Agriculture is still a major player in the Southern Africa regional economy, contributing 35 percent to its GDP. In addition, agricultural exports are a major foreign exchange earner, on average contributing 13 percent to total export earnings and 66 percent to the value of intra-regional trade. For economies such as Tanzania, agriculture accounts for 50 percent of the GDP, while others such as South Africa, it accounts for less than 5 percent. For the SADC region as a whole, the contribution of agriculture to the GDP exceeds that of manufacturing by almost five percentage points. The implication is that economic welfare will be greatly enhanced if productivity and output in agriculture can be increased through FDI (Vink, et al., 2006). Value addition to agricultural commodities significantly contributes to the manufacturing sector, and Mauritius is one such example where the textile and clothing industry, supported by the agricultural sector, has pushed up the performance of the manufacturing sector. However, it could be argued that Mauritius is being used as a conduit for clothing from SE Asia and China into Africa and the EU (McBain, 2007).

Despite the importance of agriculture in the economy of Southern Africa this sector has been in constant decline during the last number of decades. With an estimated annual growth of only 1.5 percent, agriculture is lagging behind the demographic growth. This has been the case with all emerging economies in their transition from agrarian to industrial based economies (Louw & Ngqangweni, 2004; Kirsten, 2007).

## 2.2 Foreign Direct Investment (FDI)

Foreign direct investment in SSA is important to the region and it is intended to fill some fissures in the economies of the developing countries. These include the following: the gap between local savings and investments, the lack of sufficient foreign exchange earning to cater for imports associated with economic growth, and a gap between technology and advanced skills, especially in management and entrepreneurship. In addition, the majority of SSA countries have poor infrastructures that need serious attention, as well as the persistent issue of food insecurity and diseases in most parts of the region. However, caution has to be taken especially about situations where profit remittances exceed the value of FDI, as was the case of Botswana and Swaziland in the period 1996 to 2003 (Louw, et al., 2008).

In African countries, liberalisation and privatisation has attracted new foreign investment in a wide range of industries, especially mining. FDI in Africa's natural resources has continued to increase since 2004, sustained by high oil and mineral prices on world markets. Investment inflows have increased in 40 of the region's 53 countries and declined in 13. FDI flows to Central Africa and East Africa are relatively stable, but West Africa boasts an increase of 14 percent, while in Southern Africa FDI has fallen by 18 percent (EIA, 2004).

Nigeria, Angola, Equatorial Guinea and Sudan, all rich in natural resources, have joined Egypt as Africa's top FDI recipients, all of them registering inflows of more than US$ 1 billion. The five countries together accounted for almost half of African FDI in 2004. FDI flows to many small African countries, by contrast, especially those poor in natural resources and classified as having the least developed economies such as Lesotho, are less than US$100 million each per year (Wikipedia, 2008). Many of these nations, especially the least developed countries (LDCs), have small domestic markets, lack skilled workers and struggle with supply capacity problems. Such difficulties have held back some of the market-access initiatives put into place at the international level to encourage investment in export-oriented industries.

As in 2003, FDI inflows to many African countries are still tilted towards the primary sector, particularly the petroleum industry (EIA, 2003). The oil sector accounts for more than 60 percent of FDI to Angola, Egypt, Equatorial Guinea and Nigeria, and also makes up large shares of such investment in Algeria, Libya and Sudan. Spurred by higher prices for natural resources, trans-national corporations (TNCs) have maintained relatively high levels of investment in new exploration projects in Africa and increased their cross-border activities in mergers and acquisitions in the mining industry. About half of the total FDI within Africa comes from South Africa, reflecting the fact that all four African TNCs on UNCTAD´s list of the top 50 TNCs based in developing countries are from South Africa. A key example is the current rapid development of the Mozambique sugar industry driven by South Africa and expansion of China into Mozambique and Angola.

Most of the South African investments within the SADC and the rest of Africa include those in the retail sector (i.e., Pick 'n Pay, Spar, Shoprite, Woolworths, Truworths, Morkels, Debonairs, and others), the banking sector (i.e., ABSA, Standard Bank, DBSA, Rand Merchant Bank, and IDC), while the service sector has MTN, Vodacom and Mweb and some other investments in mining (i.e., Transhex and Barloworld) (Louw, et al., 2008). All the preceding examples relate to non-tradable activities, but what the region needs is investment in tradable activities. While the persistence of critical developmental problems in many African countries has hampered their ability to attract and retain FDI, the overall situation lends itself to a cautiously positive view on the prospects for FDI in Africa, especially if issues concerning land ownership taxes, tariffs, and transport costs are addressed.

Investment opportunities within the SSA region are mainly viewed in the following sectors (Louw, et al., 2008):

- The mining sector – supported by the fact that SSA is endowed with a considerable share of the worlds mineral and oil reserves.
- The agricultural sector – mainly supported by the fact that arable land is ample and the direct cost of labour is competitive, as well as the opportunities envisaged in agro-processing and agribusiness in general. Suggestions for agricultural investments in the SSA region mostly point towards crops such as, cotton, tea, sugar, horticultural crops, cut flowers, nutraceutical crops, and tobacco.
- Tourism and the hospitality industry – supported by the region's game reserves, natural and cultural assets, and fauna and flora uniqueness.
- Services – Banking services and the information and communication technology (ICT) are viewed with a lot of enthusiasm since they can render support and speedy growth of all the other sectors.

## 2.3 Competitiveness

The Global Competitiveness Index (GCI) measure is based on three pillars that determine the rate of economic growth of a nation and these include the following: the macro economic environment, the quality of public institutions, and technological progress (McArthur, et al., 2002 in SADC). A measure of competitiveness of SSA as a region would depend on i) factor conditions, ii) demand conditions, iii) related and supporting industries and iv) knowledge. The GCI also separates countries into three specific stages: factor-driven, efficiency-driven, and innovation-driven, each implying a growing degree of complexity in the operation of the economy (World Bank, 2006). In the factor-driven stage countries compete based on their factor endowments, primarily unskilled labour and natural resources. Companies compete on the basis of prices and sell basic products or commodities, with their low productivity reflected in low wages. To maintain competitiveness at this stage of development, competitiveness hinges mainly on well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework, and good health and primary education (Louw et al., 2008). Based on the defined pillars to compute the GCI in Annexure (iv), South Africa ranks first in SSA, followed by Mauritius. The majority of SSA countries lag behind the Asian and South American developing countries

The factor conditions refer to the region's position in terms of factors of production, natural resources and production costs such as labour price and infrastructure. The demand conditions refer to the composition and size, and character of demand within the region for products and services, for example, a discerning consumer is prescriptive of what occupies the shelves of supermarkets. Related and supporting industries refer to supply industries. Other factors that influence competitiveness include the way firms are created, organised and managed, the role government plays and chance events such as wars, shifts in demand, discontinuity of technology, and shifts in world financial markets (Louw et al., 2008).

## 2.4 Human Development Index (HDI)

By definition, HDI refers to processes that enlarge human choices and improve quality of life for a human being. HDI therefore provides a general measure of human progress. It has three components which are: i) longevity usually proxied by life expectancy, ii) education level usually proxied by school enrolment and adult literacy and iii) living standards whose proxy is income (Louw et al., 2008).

Mauritius has maintained the highest ranking in the region for over a decade, followed by South Africa, with Angola, Tanzania, Malawi, Zambia, DR Congo and Mozambique all ranking very low.

(See Annexure vi). Although the SADC region ranks lower than South and Eastern Asia, it is nonetheless ranked higher than the ECOWAS and Common Market for Eastern and Southern African (COMESA) regions (EIA, 2003).

## 2.5 Corruption

In East Africa, the Kenyan government has promised to reduce government corruption and has taken a number of positive steps in that direction. In addition to the Public Officer Ethics Act which is intended to provide a code of conduct for public officials, the government passed the Privatisation and Procurement Bill with the aim of closing loopholes that have allowed corruption in the past. The government has in the past taken strong legal action against corrupt officials in the revenue and public works departments, the police and the military; and it extended significant financing to the Kenya Anti-Corruption Commission (KACC) for staff procurement. Despite these steps, Transparency International, among others, argues that little has actually changed and that the government is simply trying to placate the international donor community (EIA, 2006).

The SADC region has also illustrated political will to address corruption by adopting and signing the SADC protocol, the Africa Union Convention on Prevention and Combating Corruption and the United Nations Convention on Corruption. The challenge lies in implementing the above instruments in each of the member states. The objectives of the instruments are (SADC, 2006):

i) to develop in each member state the capacity to prevent, detect, punish and eradicate corruption in the public and private sectors.

ii) to regulate cooperation among member states in developing and harmonising policies for domestic legislation.

iii) to emphasise international cooperation and technical assistance related to asset recovery and anticorruption measures relating to public affairs and public property.

Annexure (vii) provides the rankings of SSA in terms of corruption, using the Corruption Perception Index CPI. The CPI Score relates to perceptions of the degree of corruption as seen by business people and country analysts and ranges between 10 (highly clean) and zero (highly corrupt). This ranking shows that Botswana is the least corrupt country in SSA – perhaps this is the reason its economy has performed better than most African economies.

## 2.6 Doing Business

This section presents quantitative indicators on business regulations and protection of property rights. The regulations are measured in terms of getting a business started, licensing, employment of workers, property regulation, credit access, protection of investors, taxes, contract enforcement, cross-border trade, and business closure. The rankings are based on 10 indicators of business regulation that track the time and cost to meet government requirements in business start-up, operation, trade, taxation, and closure. However, the rankings do not reflect areas such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates. A high ranking on the ease of doing business index means the regulatory environment is conducive to the operation of business (Louw et al., 2008).

Observations based on these rankings in Annexure (viiii) reveal that some of the economies within SSA are plausible locations for setting up businesses. These include Mauritius, South Africa, Namibia, Botswana, Kenya, Ghana, Swaziland, Ethiopia and Nigeria, all ranked among the top 60 economies for doing business. Mauritius seems to rank very high in terms of starting a business, and positive reforms have also been made in Mozambique and Tanzania. In terms of obtaining credit, Botswana, Namibia, South Africa and Swaziland are ranked among the top 50 countries, while when it comes to enforcing contracts, Namibia and Tanzania are ranked among the top 50 countries. South Africa and Mauritius performance remarkably well in terms of protection of investors, and improvements have been seen in Mozambique as well (EIA, 2006).

The low rankings in terms of trading across borders, for most of the SSA countries, raises some serious concerns. The SSA region will have to work on intra- and inter- regional trade barriers. The other challenges the SSA region face in terms of doing business is the wide disparity among the countries, especially considering the very low ranked countries such as DR Congo, Angola and Zimbabwe. Such disparities could drag down the entire region's overall performance. Other major sources of risk that appear to be particularly relevant are macroeconomic instability; inadequate legal systems, in particular, the difficulty of enforcing contracts, and political risk, especially armed conflicts. Reducing risk should greatly improve the attractiveness of holding assets in sub-Saharan Africa and, therefore, raise both domestic and foreign investment and saving rates, while reducing capital flight, a major problem in many countries in the region (Hernández-Catá, 2001).

## 2.7 Regional integration

Several studies conclude that trade liberalisation should improve the region's trade performance significantly and thus spur the growth of productivity and output. Some African countries have made progress in liberalising trade over the past several years. For example, the implementation of the common external tariff in the West African Economic and Monetary Union will contribute not only to intraregional trade liberalisation but also to a considerable reduction and simplification of the region's external tariff structure. Also, a current initiative such as the SADC Protocol on Trade, with SADC as a free trade area, has a target of zero tariffs by the year 2008 (Vink et al*.,* 2006). In addition, in Southern Africa, South Africa, Namibia, Lesotho and Swaziland have managed to create a customs Union. Such progress must be extended to other parts of sub-Saharan Africa. Regional Integration Arrangements (RIA) are aimed at promoting economic growth and development through enhancing investment. The SADC trade protocol and the finance and investment protocols have been developed with the aim of equitably liberalising intra-regional trade and development in the region. They also seek to foster greater efficiency in production and improvement in the investment climate.

The advantages of regional integration will be the expansion of the market beyond the confines of a single domestic market, which will consequently increase investment opportunities. Belonging to an RIA can also be seen as an expression of sound macroeconomic policies, which will attract confidence in the economic management of a country, and hence a positive impact on FDI. The attribution of success of regional integration is often intermingled with the implementation of favourable and investor-friendly policies.

In Africa, a number of countries find themselves belonging to more than one trade bloc, and as a result, there are a number of conflicts that have arisen in treaties over the years. Eastern African countries suffer the same plight, to the extent that, Kenya, Tanzania, and Uganda recently re-established the East African Community (EAC), which was dissolved in 1977, due to political and economic differences. Under the auspices of the EAC treaty, signed in November 1999, the three countries negotiated the framework for a customs union that was scheduled to be signed in January 2004 with a view of establishing a common regional market. Officials also envisage a monetary and political union in a process that they say could take up to 20 years. Both Rwanda and Burundi, currently recovering from a number of years of political instability, have expressed interest in joining the EAC (EIA, 2004).

Besides the EAC, Burundi, Kenya, Rwanda, and Uganda are also members of the Community of East and Southern African States (COMESA), formed in 1994 and composed of 20 countries in Eastern and Southern Africa. Tanzania withdrew from COMESA in 2000, citing a high trade imbalance with COMESA-member countries, particularly Kenya. In October 2000, COMESA launched its free trade program, creating schedules for internal tariff reductions. Both Rwanda and Burundi have announced their intention to join COMESA's free trade arrangement. By the end of 2004, COMESA aimed at having a common external tariff structure for all third party trade, among other regional and cooperative goals (EIA, 2004). Tanzania is a member of the Southern African Development Community (SADC), an economic regional organisation similar to COMESA.

Although trade liberalisation in the region is crucial, it is equally important that African producers be granted better access to the markets of the advanced economies. In particular, the advanced economies should reduce tariffs at all stages of production, with a view to lowering the effective protection on goods of actual or potential interest to sub-Saharan African countries, such as clothing, fish, processed foods, and leather products. A favourable outcome of the Doha Development Round of the WTO is important for SSA trade and development.

### 2.8 Summary

From summary statistics and economic indicators, South Africa and Mauritius seem to be quite ahead of the rest of the SADC countries; Kenya takes the economic lead in east Africa, while Nigeria takes the lead in West Africa. On the other hand, DR Congo and Malawi have very concerning GDP per capita figures and they do not feature among the top 131 rankings of global competitiveness. Such disparities in the region affect the general progress of the region in terms of integration and economic growth.

Political and economic stability across the region is still a major challenge. Some countries in the SSA region are more prone to slipping back into situations of political instability than others, in the process creating distinct differences in investor confidence and FDI across the region.

## 3. RESTRUCTURING OF AGRIFOOD MARKETS

### 3.1 Introduction

In the past decade, as in the rest of the world, many countries in SSA have experienced different levels of restructuring of agri-food markets (Weatherspoon & Reardon, 2003). Most African countries were characterised by state-controlled supply chains for agricultural and food commodities in the decades after independence from colonial power (Mawar & Temu, 2007). Government was heavily involved in agricultural marketing and food processing through the creation of marketing boards, parastatals, and government-controlled cooperatives. State involvement in the production and marketing of staple food crops was most extreme in Eastern and Southern African countries, while in West Africa, marketing boards, parastatals, and companies intervened heavily in the supply chains of export crops but were less influential in grain markets (Kherallah et al., 2002). In many parts of SSA the system of state-controlled governance in agricultural supply chains collapsed during economic reforms around the late 80s and early 90s. Privatisation and liberalisation removed the state control in agricultural commodity chains, provided competition and ensured efficiency. In most countries, the monopoly status of government marketing boards and parastatal processing units collapsed and private traders were allowed to participate in agricultural trade (Mawar & Temu, 2007).

The restructuring of food markets on the subcontinent has been characterised by the displacement of state-run agricultural marketing structures with privately run companies. The restructuring process is characterised by an increased consolidation and concentration of the agri-food industry. Supermarkets are expanding at different rates in the three regions, namely, Southern, East and West Africa, with Southern and East Africa experiencing relatively more rapid expansion than West Africa. The supermarkets' rates of expansion vary, showing no clear patterns. Most retail chains in the regions are products of foreign direct investment, coming mostly from South Africa, Kenya and some countries in Europe, such as, France and the Netherlands. Unlike the global phenomenon of formal markets replacing informal markets, informal food markets, especially in East and West Africa, are still vibrant. There is still significant presence of smaller local retail chains, especially in Eastern and West Africa. South Africa and Kenya are advanced instances of the restructuring process; countries like Tanzania, Nigeria, Uganda and Ghana have also experienced significant restructuring dynamics. Population growth, income growth, urbanisation and change in consumer taste, as well as an increase in health consciousness are the main drivers of the restructuring process on the subcontinent .These are similar to the global drivers of the restructuring process. The traditional way of producing food has been replaced by growing contracts, in which farmers have a clear idea in advance of when, to whom, and at what price they will sell their crops. Farmers increasingly produce to meet the requirements of buyers, rather than relying on markets to absorb what they produce (Reardon et al*.,* 2003).

## 3.2 Restructuring of food markets

*Agro-industrialisation* comprises three related sets of changes, namely, the growth of agro-processing; retail, distribution, and farm-input provision activities off-farm; and institutional and organisational changes in the relationship between agro-industrial firms and farms (Reardon et al., 2003; Following Bennett's Law, population and income growth, and urbanisation induce global changes in consumer demand patterns, notably disproportionate growth in demand for dairy, meat, horticultural products, and processed grain products, compared with demand for unprocessed staple foods, (Reardon *et al*, 2005). Agro-industrialisation both prompts and responds to the changing organisation of agri-food sectors in developing countries and changes in institutions governing production and market exchange. As urbanisation and industrialisation of food systems proceeds, the way food is produced and marketed in developing countries changes in response to changing demand. The changes in food retailing bring major challenges related to the sustainability of small retail shops and vendors, small enterprises, and small-scale farmers (Reardon et al, 2005).

According to Reardon and Timmer (2005), the transformation expected in the output market as a result of agro-industrialisation comprises five sets of changes:

- A shift from commodity to product as the 'centre of gravity' of the food system;
- Rapid organisational change in markets, including consolidation in the downstream segments of agri-food systems (processing and retail segments), often with a spectacular increase in supermarkets – a retail revolution in food markets in developing countries that is fundamentally altering their nature and structure;
- Rapid institutional change in the markets, with an increased incidence of contracts, and private grades and standards for food quality and safety;
- Rapid technological and managerial change among suppliers, wholesalers, and retailers in the context of the above organisational and institutional changes;

- The concomitant distributional, technological and welfare impacts of changes in the 'downstream' segments of the food system (the consumer market) on the 'upstream' segments of the food system, in particular on farmers.

There are several marketing channels in SSA with participants comprising distributors, wholesalers, agents, and retailers. The agri-food markets are characterised by loose backward and forward integration. In all three regions, there exist both formal and informal food marketing systems. The formal food marketing system distributes food through the supermarkets' chains, while the informal food marketing system distributes food through street traders, hawkers and open or spot markets. Some of the distributors are also producers or manufacturers of certain local products. The open markets, roadside traders, and hawkers cater for the common buyer, and they sell all types of products, especially in the informal market channel. Within the informal markets, there are both wholesalers and retailers, some of whom import their products directly, or buy their products directly from farmers or through agents.

There are also many supermarkets of different sizes and formats. There has been a proliferation of independent stores in these regions, mostly operated by business people of Asian origin. These independent stores are mainly found in the low-income suburbs. Upper- and middle-class consumers prefer buying from the supermarkets. In most countries on the subcontinent the majority of supermarkets are found in the high-income areas of the big cities and towns and are small- to medium-sized relative to the large supermarkets found in South Africa and the rest of the world. Unlike the Southern African region (South Africa, Zambia and others) where supermarkets are firmly established, West African countries are yet to experience the 'supermarket revolution' (Kinyili, 2003). The supermarkets' share of food retailing in South Africa stands at 55 percent, compared with 5 percent in Nigeria (Weatherspoon & Reardon, 2003). Although some West African countries are experiencing transformation in this regard, it is at a relatively slow pace. West African countries are very late adopters of supermarkets, which is a result of low income levels, lack of infrastructure and policies supporting the establishment of supermarkets, and low foreign direct investment, also known as FDI (Kinyili, 2003).

In all the regions, supermarkets are yet to gain a sizeable share of the fresh produce market, compared with their share of the processed food market. Most West African countries, including Nigeria, lack retail stores for fresh produce (vegetables, dairy products, and fish and meat products). In the majority of instances, fresh produce is sold by street traders and hawkers at open markets, but it can also be purchased at neighbourhood stores and local shops, which is especially the case with fish, fruit juices and dairy products. The procurement systems for a number of retail chains in SSA have transformed, but the transformation process has not been uniform across the three regions. All of the Southern African chain retailers have fully adopted a centralised procurement system. East and West Africa still lag behind in terms of changes in their procurement systems, as most retailers in this region are still procuring through wholesalers. A number of supermarkets in West Africa are still at the level of neighbourhood shops or stores, and as a result, the issues of quality and standards are not matters of primary concern for them. Their primary objectives are to have enough stock at all times and to make profits. However, local supermarkets will also have to adopt the new procurement systems, because the levels of income of customers are increasing gradually, and this is usually followed by quality and standards starting to play vital roles in customers' purchasing decisions.

The importance of supermarkets in SSA has not reached the same levels as those in Latin America and greater parts of Asia. In the subcontinent, traditional markets have been more resilient in the case of fresh foods, in particular fruit and vegetables. The evolution of supermarkets in developing countries is a major factor fuelling the development of domestic markets for high-value agricultural products. Before the advent of supermarket chains, high value crops were grown mainly for export, especially in countries such as Uganda, Kenya, South Africa and Zimbabwe. This pattern has been reversed, due to the increased domestic demand for processed foods and higher quality fresh produce. In general, there has been low market penetration by supermarkets in most of SSA. The retail chains account for less than ten percent of retail food sales in SSA (Reardon & Timmer, 2005). The food processing sector is small, and may even be stagnating, with little or no integration along the supply chain. Besides South Africa and a few other countries, there are relatively low levels of concentration in both the processing and retail sectors.

Like the rest of the world, food consumers in the SSA region are also becoming more demanding in terms of quality and safety. Demographic and income trends are leading more affluent consumers to demand convenience foods such as frozen, pre-cut, pre-cooked and ready-to-eat items, together with assurances of product safety (Louw et al*,* 2006; Temu & Marwa, 2007). There has also been some transformation in the wholesale function of the food markets. Wholesalers have developed from local, fragmented operations into larger, specialised and more centralised operations. In most SSA countries, this has been driven by urbanisation and the development of improved infrastructure. These transformed distribution centres have increased the scale and volume of their procurement, implying which means that they have to procure products from larger areas, in higher volumes, to serve a larger number of stores. They are compelled to work with suppliers whose scale, capital, and managerial capacity are sufficient to meet the requirements of their transformed procurement systems. The major drivers of the growth of high value agricultural products for the past decades have been urbanisation, changes in dietary preferences, increased awareness of the health benefits of FFV, and general income growth in some countries. While urban migration occurs in all of SSA, it has special significance in Eastern and Southern African (ESA) countries. The ESA urban population grew at 3 percent, which is faster than the growth of its rural population. Comparable figures for sub-Saharan Africa as a whole and for the Asia and Pacific region are 2.7 percent and 2.2 percent respectively (Mawar & Temu, 2007).

## 3.3 Pattern of restructuring

The restructuring process in the processing and supermarket sub-sectors has taken place in most SSA countries. All three sub-regions embraced the supermarket diffusion trend late, but Southern Africa embraced it earlier than West and East Africa (Reardon & Weatherspoon, 2003). The rise of processors on the subcontinent started in the mid-1990s, and this triggered the transformation of the food retail sector. The first appearance of the spread of supermarkets in SSA occurred in South Africa and Kenya, and it has subsequently spread throughout the subcontinent, especially to East and West Africa. South African (Shoprite) and Kenyan (Uchumi) retail chains are front runners in terms of expansion in SSA (Reardon & Weatherspoon, 2003). Shoprite and Pick 'n Pay (PNP) have been the main actors in terms of the diffusion of supermarket chains from South Africa to the rest of the subcontinent. South Africa controls 80 percent of the processor sector in sub-Saharan Africa (Louw et al, 2004, Sautier *et al*, 2006). This country undertook a massive expansion into African markets and beyond, due to the saturation or near saturation of the South African market, and partly because of their search for higher profit rates in the new underdeveloped markets elsewhere in Africa in terms of retail stores. (Reardon & Weatherspoon, 2003). Pick 'n Pay is South Africa's second largest food retailer and is in vigorous competition with Shoprite (in particular, its more upmarket Checkers format) for the mass market, and with Woolworths for the upper-income market. It is also in competition with Shoprite for early entry into other African markets and with Metcash and Woolworths in the Australian market.

***Box 3.1: Case study of Kenyan and Ugandan FFV and dairy markets***

Results from studies that were carried out in Kenya and Uganda show that fresh fruit and vegetables are currently being marketed using various channels. These include large, medium and small supermarkets, kiosks, and roadside green grocers (given the common name *Kibandas),* as well as traditional markets in the low- and high-income areas.

The sales of fruit and vegetables in supermarkets are growing and slowly spreading out of Nairobi's middle and upper class areas into poorer areas and rural towns/cities. Studies have shown that there are two dominant supermarkets, Uchumi and Nakumatt in Kenya. These two supermarkets between them have about 70 percent market share. Uchumi has been undergoing an ambitious expansion program locally and is spreading out into neighbouring Uganda. The command of market share that these two supermarkets have has made it difficult for foreign firms to penetrate these markets. Retail outlets for fresh fruit and vegetables targeting upper- and middle-income groups account for 20 percent of marketed volume of food in urban areas. Of these volumes 70 percent of the products are produced locally, and the rest is imported.

The current FFV procurement system implemented in Uganda is characterised by three players, namely the producers, wholesalers and the retailers (i.e. supermarkets, produce markets, kiosks, hotels, hospitals, restaurants, etc). Larger supermarkets generally prefer to purchase directly from farmers, who are able to meet the strict customer requirements, which include consistent supply and quality, food safety standards, and the provision of a wide variety of produce throughout the year. These supermarkets only resort to purchasing from the open market during periods of shortages. Due to the efforts of a small number of commercial farmers in Uganda, Uchumi (one of the leading supermarkets in Uganda) procures 51 percent of its vegetables and 53 percent of its fruit from small-scale farmers. It utilises brokers to meet the shortfall. These brokers have the option of acquiring their produce from small growers or importing from South Africa or Kenya. In cases where the farmers fail to meet the quantity threshold, they are forced to purchase from other farmers in order to meet their quotas. Large hotels, wholesalers and hospitals prefer to procure through agents, rather than dealing with farmers. These agents purchase the FFV from the produce markets of Owino and Nakasero and deliver to their clients. This option is preferred so as to reduce transaction costs (achieved through transactions that are built on trust, experience, reliability and respect for contractual obligations).

In terms of dairy products, 80 percent of milk in Kenya and 90 percent in Uganda is sold unprocessed. In recent years the processing of dairy produce has been increasing, although it is has not yet achieved its full potential. Supermarkets are the main outlets for processed dairy products, but not for raw milk. Locally owned dairy processing firms supply processed dairy products to supermarkets, hotels and hospitals, as the latter do not buy unprocessed milk directly from farmers. In general, the main suppliers of milk and milk products to these institutions are the 10 private dairy processing firms who supply a range of products (Alpha Dairy, Jesa and Dairy Corporation supply fresh pasteurised milk, Showman Industrial supplies ice cream, and Paramount Dairies supply cheese and fresh cream). Fresh milk is the main dairy product traded, and it accounts for 70 percent of milk products supplied to Uchumi. Dairy products are mainly imported from Kenya and/or SA. Kenya's export products include cheese, ghee, butter, yogurt, ice cream and milk, while South African and New Zealand firms supply butter and milk.

(Adapted from Nyoro and Aliguma 2005)

The supermarket 'market takeover' has been most rapid in processed foods, followed by fresh products. This is typical of the supermarket diffusion trends in other developing regions, because it is easier to reap the advantages of development (volume, convenience) in processed foods. On the contrary, it takes more time to set up good fresh food procurement and merchandising systems to drive down the costs of the latter and to compete with traditional retail structures (Reardon, et al., 2004). The processors' progress in gaining control of fresh food markets has not only been slow, but, there has also been wide variation across countries because of local habits and consumer responses to wet markets (i.e. open markets) and local shops (Weatherspoon & Reardon, 2003). In the past, supermarket chains had difficulty fulfilling their procurement objectives by procuring their products from traditional wholesalers (Reardon, et al., 2001). Supermarkets sourcing their stock from the traditional wholesale industry were confronted with markets that were fragmented, unformatted and not standardised (Kinyili, 2003).

New Shoprite stores continue to open in most West African countries, and the Nigerian market offers the greatest potential for the expansion of the Shoprite brand. Shoprite is developing modern retail structures and procurement systems, thereby contributing to investment in infrastructure and to the knowledge base of its local suppliers. However, a large majority of products available in Shoprite stores across Africa are imported from its domestic base in South Africa (Planet Retail, Undated). Massmart has also recently opened a store in Nigeria, Africa's most populous market and a key economy in West Africa. Further stores under the Variety Store's banner are expected to open soon in Ghana. Massmart focused on neighbouring African countries at first but has now chosen to go beyond these with the opening of Game stores in West African countries. There are also French retailers, such as Casino, which has franchised Leader Price stores in West Africa. The growth of supermarkets in South Africa and their parallel expansion in the rest of Africa implies a steady capturing of market share among high-, middle- and lower income segments of the population (Weatherspoon & Reardon, 2003). For instance, supermarket chains, which include Shoprite, Pick 'n Pay, SPAR and Woolworths, reportedly had a combined revenue of USD14.5 billion out of total South African retail grocery sales of approximately USD22.4 billion in 2006 (Winter, 2007:3). Similar growth is beginning to take place in other regions of the continent; for instance, the rise of the Uchumi and Nakumatt supermarket chains in East Africa attests to this trend.

Until the recently, there were only a few supermarkets in Kenya, Uganda and other African countries, and these were located only in the big towns and cities and targeted only high income consumers. With liberalisation, privatisation, and globalisation, however, many more supermarkets, some even located in small towns and targeting middle- and low-income earners, have emerged. Ethiopia, like the rest of the East African countries, has also experienced changes in agricultural commodity marketing. In this country, there are several actors in the marketing of high-value commodities such as livestock, fruit and vegetables, and dairy products. Historically, the primary actors have been small-scale producers who have supplied products to small traders, wholesalers, retailers and consumers. In addition, farmers' cooperatives and unions have been prime drivers of the rural economy through the provision of credit, inputs, market outlets and information on markets and technology. However, this structure is changing due to the emergence of commercial farms and the introduction of new technologies, as well as the growth of supermarkets (Louw et al., 2007). The growth of supermarkets has been triggered by an increase in the urban population, the growth in income of relatively wealthier Ethiopians, and the increasing numbers of expatriates who prefer to shop from supermarkets.

The agro-processing sub-sector in SSA has also experienced significant growth. This transformation started in the mid-1990s. Processors have spread fast in Southern and Eastern Africa, and they are already proliferating beyond middle-income, big-city markets into smaller towns and poorer areas (Weatherspoon & Reardon, 2003). The processing sector has expanded throughout SSA as a result of foreign direct investment (FDI) from relatively rich countries, such as South Africa, into the smaller and/or poorer countries (Reardon & Berdegué, 2002; Reardon et al., 2003). In addition to FDI, urbanisation and concomitant food diversification have increased opportunities for the processing sector in SSA. Studies in capital cities of different Western and Central African countries have shown that a number of non-tradables have become regionally traded products: *Attiéké,* for instance, (a type of cassava couscous), which forty years ago was only known by the Adioukrous and Ebriés from the Ivory Coast, has spread to many countries in Central Africa (Sautier et al., 2006). This was mainly achieved on a small scale by an informal rural and urban food-processing sector that has shown a strong innovative capacity and marketing creativity.

Until the last decades of the twentieth century, the development of the industrial agro-processing sector in Western and Central Africa was predominantly concerned with either the processing of export-oriented cash crops (such as cotton, coffee, cocoa, fish canneries, etc.) or with the local processing of imported agricultural commodities (milling industry, breweries, milk reconstitution, etc.). In most countries, industrial processing of local products for local markets was limited to a few products, for which both western technology and a mass standardised market were available (e.g. sugar, tomato concentrate) (Kanyili, 2003). In other words, industrial-scale food processing has been present in 'local-to-global', as well as in 'global-to-local' value chains. But it often failed regarding domestic, 'local-to-local' markets. This is due to the difficulty of inserting an industrial segment into local food supply chains, which are characterised by the atomisation of production on one hand and by a diverse and fragmented demand on the other hand (Sautier, 2000). Urbanisation and subsequent food diversification is an area of opportunity for processed African foods. The growing importance of the urban environment reinforces the trend toward food diversification and increased demand for processed food.

Small and decentralised enterprises, as well as self-made, informal (including female) entrepreneurs play an important role in food processing and catering activities for local markets in many African cities. In Garoua, a Northern Cameroon town with an estimated population of 230 000 inhabitants, a total of 1647 small and micro commercial agri-food enterprises were identified, which is one agri-food income generating activity for every 23 urban households (Sautier et al., 2006). Small-scale food processing and catering activities, being decentralised and labour-intensive, are becoming increasingly important income earners for the poor. Moreover, food processing and catering are, along with local food trade, probably the economic activities where women play the more prominent roles. In the Garoua survey, women run 82 percent of the activities. Agri-processing success stories rely on long-term relationships between producers and processors. Farmers are thus loyal to their processing organisation if they benefit from it through a reduction of transaction costs, an alleviation of financial risks, or a perception of productivity gain (Sautier et al., 2006).

A number of non-tradables have thus become regionally traded products. It seems as if the urban configuration of the food sector supported a selection of the ample variety of processed foods available, allowing for the emergence of new 'national' or 'urban' dishes. This not only maintains regional and rural tastes within the urban societal blend but may also, contribute to the forging of a new territorial identity for the urban population, as Luzietoso (1999) suggested. This adaptation mechanism certainly represents a largely untapped source of growth for generating pro-poor development through food processing. In contrast with pessimistic predictions of vanishing local food product consumption, the African rural and urban food-processing sector, often informal, has proven over the last decades to possess a strong innovative capacity and market reactivity (Muchnik, 2003). They tend to develop a range of flexible services rather than, or along with, commercial activities (e.g., service milling vs. processed flour sales). For instance, in Dakar (Senegal), the number of urban cereal service mills grew by 63 percent between 1990 and 1997. Three-hundred-and-thirty-nine (339) informal service mills were counted either in marketplaces or in neighbourhoods, equating to one milling shop for every 840 households. It was estimated that these artisan mills held a 90 percent share of the millet milling market (ENDA, 1999).

## 3.4 Implications of restructuring

With the recent growth in national food demand, as a result of increase in levels of income, improvements of infrastructures, changes and improvements in policies and lifestyle changes, more marketing opportunities are created for retail stores. There is a need for improvement in the existing marketing channels (supermarkets) for fresh produce. More supermarkets need to be established in West African countries and in Africa in general. For example, Nigeria with a population of over 140 million people provides a large market that foreign investors could capitalise on by providing more supermarket services. This also holds true in other West African countries. Opportunities exist for investors to invest in storage facilities and distribution channels. Africa's value of domestic food demand is estimated to be almost USD50 billion. The domestic market for food staples in West Africa is greater than in the other regions of Africa. The value of West Africa's domestic market is more than USD20 billion, while the value of Southern Africa's market is USD12.1 billion, and the value of East Africa's domestic market is USD17.6 billion (Diao & Hazell, 2004). In Uganda, the current FFV procurement systems do not seem to discriminate against the small scale producers as yet. Currently small-scale farmers who produce high grades and standards of FFV are finding outlets in the supermarkets. On the other hand, those with low quality production and high wastages find it difficult to sell to the supermarkets. Similarly, the traditional markets in Uganda are an important source of FFV to low-income urban consumers, mainly because of the low prices they offer. As long as the low-income majority is present, traditional produce markets will survive, in spite of their low-quality and non-hygienic nature.

Despite the increase in agri-food commodities emanating from the expansion of the retail sector, there have been little or no opportunities for smallholder farmers. The restructuring process is likely to exclude farmers from food markets in two ways: firstly through the displacement of traditional markets by formal food chains, which will leave smallholder farmers with no alternative markets; and secondly, the restructuring process will exclude farmers through the introduction of private standards such as EurepGAP which makes it tough for smallholder farmers to sustain compliance. In light of these threats, the restructuring process favours large agribusiness over smallholder agriculture. This scenario occurs in spite of the presence of a vibrant informal market throughout the region (even in South Africa) to which smallholder farmers can supply their products. It was also ascertained in previous studies that smallholder farmers prefer informal markets such as hawkers because they offer better bargains in terms of prices. In addition, they are not stringent on quality, as they take anything that is offered to them, and there are also less transaction and bureaucracy costs incurred by farmers in supplying the informal markets with their commodities.

Peasant producers have veered away from producing traditional export crops and commercial staple foods in rural areas that are remote from roads and urban markets. Non-agricultural income diversification has been substituted in the search for much-needed cash earnings. In other words, as IFAD (2003) put it, smallholder producers find themselves in a world entirely unlike the one they faced two decades ago. Many smallholder farmer groups in society are subject to economic, political, or cultural exclusion through different mechanisms and institutions. This exclusion from different markets such as labour, credit, and access to education is a crucial issue in multiracial and multilingual countries, and it can inhibit rural development and market integration (Chowdhury et al*.,* 2005). Supermarkets in Kenya tend to favour the medium, large and other organised producers, which impacts negatively on smallholders farmers (Nyoro & Aliguma, 2005). Furthermore, as supermarkets and similar institutions, such as hotels and hospitals, continue to raise their requirements with regard to quality, traceability and consistency of volume, a situation will arise where smallholder producers are marginalised and eventually excluded because of a lack of resources that are crucial in creating the capacity to meet these requirements. Similarly, under-capitalised brokers will face tough rivalry from larger producers and traders with the capital necessary to meet these requirements.

As the marketing of FFV evolves, brokers/agents are the clear losers in the modern supply chain, as supermarket chains seek to contract directly with producers, because the brokers/agents are not able to ensure traceability, food safety, and production methods, all of which the large chains are concerned about. Small producers are also at high risk of becoming marginalised in the new supply chain if they are not able to meet the stringent quality and safety requirements and offer their products in a shelf-ready format all year round. However, the evolution of the supermarket and other non-supermarket institutions has one positive role to play in the development of agri-food distribution systems. The supermarkets, just like the export horticultural industry, are raising standards in the marketing of fresh fruit and vegetables. Production of high quality and hygienic FFV could stimulate domestic consumption.

### 3.5 Conclusion

There is a wide array of supply chain webs throughout the SSA regions. The food marketing channels include distributors, wholesalers, agents, retailers, and legal and illegal cross-border chains. Each of these groups can either purchase products locally or import directly through one another. Some of the distributors are also producers or manufacturers of certain local products. The retail points are open markets, supermarkets and independent stores. The open market is clearly a common food outlet, especially in West Africa. The open markets are both wholesalers and retailers, some of whom import their products directly. There are also many supermarkets of different sizes and formats, from independent stores to chain retailers. There is a dichotomy between supermarkets and open markets, as the latter are located in rural and peri-urban areas and usually serve resource-poor agro-based households. On the other hand, supermarkets are usually located in the urban areas, serving high- and middle-income consumers. The food chains are characterised by a dynamic, loose form of integration. In some cases wholesalers incorporate a retail or production function. One can conclude that the restructuring process in Africa has taken a different route to the rest of the world. Both the traditional and modern markets are growing, unlike in Latin America and Asia where modern markets, such as supermarkets, are replacing traditional market channels. There are both positive and negative implications for smallholder agriculture, and there is a need to leverage these challenges through creating an enabling environment where smallholder farmers can participate and compete with the modern markets.

## 4. THE INCLUSION AND EXCLUSION OF SMALL-SCALE FARMERS IN VALUE CHAINS

### 4.1 Current state of affairs of small-scale farmers in sub-Saharan Africa

In sub-Saharan Africa (SSA), where small scale farmers account for 90 percent of agricultural production, access to viable modern markets, such as supermarkets and agro-processors, can be a crucial component of wider poverty reduction (Humphrey, 2006; Shepherd, 2007). Today, the major challenge facing the smallholder agricultural sector in SSA is how to sustainably link small-scale farmers to formal agribusinesses such as supermarkets. Given the right incentives and support (both private and public), small-scale farmers can participate in these modern supply chains and benefit from increased access to inputs, availability of credit, innovative technologies and 'productivity spill-over' effects. To be included in these modern chains, small-scale farmers have to supply larger volumes per client, enabling them to meet the supermarket's stringent product quality standards. There has been much debate on linking poor farmers to markets, but less effort has been put into how to develop robust, relevant intervention frameworks that are theoretically sound. Several questions, such as, "What should be done, by whom, and at what stage of the value chain?" have to be answered. This calls for a new approach to evaluating potential linkages of smallholder farmers to modern agricultural markets.

Value chains refer to a specific type of supply chain where the actors actively seek to support each other so as to achieve increased efficiency and competitiveness. They achieve this by investing time, effort, and money in building relationships with other actors in order to reach the common goal of satisfying consumers' needs, and thereby increasing their profits. However, developing value chains mostly target those actors who have the potential to generate wealth by producing and processing those products that are demanded by the market. Unfortunately, not all farmers will have the ability to meet the desired requirements. It is therefore crucial to develop strategies that promote the inclusion of less privileged actors in order to create broad-based opportunities for the majority of small-scale farmers (Kit et al., 2006:3).

At present, the majority of small-scale farmers in SSA are characterised by limited access to the factors of production such as land and capital, and they operate in highly distorted labour markets. Most of them are poorly educated; have limited access to market information, agro-inputs, extension or advisory services; and are located in remote areas, making access to markets very difficult. Their conditions have made them become price takers rather than price setters, and they have little regard for quality standards, since the system in which they operate may not reward them.

However, the growth of supermarkets in South Africa and their parallel expansion in the rest of Africa implies a steady capturing of market share among not only the high- but also the middle- and low-income segments of the population (Weatherspoon et al., 2003). For instance, supermarket chains, which include Shoprite, Pick 'n Pay, SPAR and Woolworths, reportedly had a combined revenue of USD 14.5 billion out of total South Africa grocery retail sales of approximately USD 22.4 billion in 2006 (Winter, 2007:3).

Similar growth is beginning to take hold in other regions of the continent. The rise of the Uchumi and Nakumatt supermarket chains in East Africa attests to this trend. With such developments in recent years in the food processing and retail sectors in sub-Saharan Africa, it is imperative that small-scale farmers be included in the value chains that seek to meet the increasing demands of consumers.

## 4.2 Inclusion initiatives across sub-Saharan Africa

### 4.2.1 The East African experience

Incorporating small-scale producers in value chains requires a number of issues to be addressed. This in turn will enable farmers to increase their level of competitiveness. Forming and sustaining farmer groups is a key prerequisite to the success of smallholder participation in modern markets. Since a majority of farmers in sub-Saharan Africa operate in isolation and are remotely placed, the formation and strengthening of farmer organisations are fundamental steps towards achieving competitiveness. Although cooperatives left a poor legacy in most African countries, it remains crucial for farmers to function in groups in order to reduce unit costs in obtaining inputs, to reduce the costs of marketing, and to have stronger joint negotiating positions for better output prices so as to obtain higher revenues for their produce. In order to prevent the recurrence of past mistakes involving mismanagement of the cooperatives, it is important for these groups to be highly cohesive with transparent mechanisms of management. The case study in Box 4.1 relates a case involving horticulture producers in Tanzania. It highlights successful initiatives in incorporating small-scale farmers into value chains in East Africa.

### *Box 4.1: Tanzania case study: explaining inclusion and exclusion*

This case study of the Balimi network involves the dynamic market of horticulture crops. Horticultural products marketed by Balimi farmers have to meet the required standards, which include producing them without using poisonous insecticides, selling them fresh and packaging them in trays and crates. Quality standards and grades are set by the hotels/camps, and network farmers have to follow these. However, packaging materials are negotiated depending on their cost and availability. The conditions of commercial transactions involve decisions on transport costs and payment schedules by the hotels/camps. The farmer network negotiates costs and payment dates with the transporters. Normally, farmers pay transport costs after receiving their payments from the hotels/camps. Hotels/camps agree to pay farmers in cash on the day of delivery; nevertheless, some of the new camps prefer to pay farmers one month after horticultural produce has been delivered.

To deliver horticulture produce consistently to the hotels/camps, farmers have acquired water pumps for irrigation, using water from the lake. In addition, the network has established Savings And Credit Co-Operatives Societies (SACCOS) in order to access loans from banks, which enables them to meet the transaction costs required to participate in this dynamic supply chain. Also, the groups have formed a vegetable marketing committee to ensure that the quality of produce supplied to the hotels/camps meets the standards and grades set. The network has managed to remain in the dynamic supply chain because of the technical and financial support received from the development agency. However, gradually the members of the network have gained the required skills, such as production and marketing. The main features necessary for small-scale farmers to continue participating in the market chain are group formation, effective constitution, specified quality standards, production and marketing skills and access to water and transport services.

***Group formation***: For farmers to be included in the dynamic market for horticulture products, they should be mobilised into groups/networks. These enable members to pool their produce to fulfil orders received from the hotels, for which a single farmer may not have sufficient quantities all year round. This helps farmers and hotels to engage in long-term business relationships. Also, groups/networks increase farmers' collective bargaining power; enabling them to sell their produce at higher prices than if they were to sell individually. Farmers do not negotiate with the hotels/camps directly; instead they propose the prices to the development agency, which negotiates with the buyers using the farmers' proposed prices to establish market prices.

***Adherence to specified quality standards:*** The dynamic markets use agreed standards and grades, which suppliers should adhere to. Network farmers have a vegetable marketing committee, which makes sure that all farmers follow the specified standards before produce is transported to the hotels/camps. Farmers who fail to adhere to the specified standards are excluded from the market.

***Adherence to the group's constitution***: The network has a constitution with established by-laws, which each member is obliged to obey. A network constitution was drafted by a team of elected representatives from member groups. The draft constitution is endorsed by group members in their general meetings. Those who violate the by-laws are either punished according to the constitution or their membership is terminated. For example, network members who come to the meetings late or who fail to attend meetings are fined USD 0,45 and USD 1,00 respectively. Members who do not pay are excluded from the group/network. Farmers join the network by paying a group membership fee. They must be a regular producer of vegetables and/or fruit. In addition, they should be willing to cooperate with other members.

***Production and marketing skills***: In order to produce according to specified standards and grades, network farmers need to acquire production and marketing skills. Farmers in the Balimi network have been trained in improved production practices as well as in marketing skills, such as receiving and fulfilling orders, and grading and scheduling payments. In addition, network farmers set a production calendar, which is followed by member groups to ensure continuous supply to the hotels/camps.

***Access to water and transport services***: Tourist hotels/camps require farmers to supply horticultural produce all year round. Groups that cannot consistently supply the required quantities and qualities are excluded from the market. Availability of water for irrigation, particularly during the dry season, is critical for continuous production of horticultural crops. Furthermore, a reliable transport service, including road infrastructure, is important to enable farmers to remain in the market.

Box 4.2 is a case study involving a group of small-scale potato growers that has excelled in the marketing of potatoes to a high end retail outlet in Uganda.

***Box 4.2: Case study of small-scale potato growers from Uganda***

The Nyabyumba farmer group features smallholder potato producers who have been directly linked to Nando's, a major fast food outlet in the capital city, Kampala. The group, which is located in south west Uganda is about 450 kilometres from Kampala. The group consists of about 120 members, who are divided into five subgroups. These groups have staggered their production in such a way that they can consistently meet their supply quota of 40 metric tons to Nando's every week. The group has a democratically elected leadership who are mandated to conduct business on behalf of the members. The leadership is responsible for ensuring that each subgroup meets their supply requirements and the quality requirements of the consumer. It also transports and delivers the produce and is responsible for picking up the payments and ensuring that the proceeds are equitably shared. Farmers belonging to this group are evidently much better off than the non-members in the area, especially in terms of revenues from their produce, and consequently, the group has grown in terms of assets. The group receives adequate advisory support from NGOs and this has enabled it to achieve the yields and quality requirements specified by consumers.

Source: Jagwe J.N., Magala D., Mayanja S., Namisi S., Ssemwanga J., Ojok-Laker R. (2006)

The case study in Box 4.2, above, is a good example of a well managed farmer organisation, but achieving this level of efficiency has taken a lot of effort mostly by NGOs and research organisations to initiate the linkages and to build the self-coordination mechanisms of the group. The NGOs working with the group have dealt intensely with issues relating to group formation, group dynamics, leadership, transparency, accountability, trust building, access to and interpretation of market information, and the negotiation of terms of payment. The group has, over time, developed its own mechanism for staggering planting in order to achieve consistency in supply, and with the help of research organisations, the group has been able to adopt suitable agronomic practices that are necessary to meet the required quality standards. This example expresses optimism, in that the group still stands and is still performing four years after it was established. Such isolated instances of success ought to be extended to other farmers as well. Yet another success story is highlighted in Box 4.3. In this case, small-scale producers in East Africa were made more competitive through the development of market linkages and market information systems.

***Box 4.3: Case study of Kenyan agricultural commodity and information exchange***

The Kenyan Agricultural Commodity Exchange (KACE) is a private sector enterprise established in 1990 to fill the gaps created by the collapse of the government-controlled marketing systems. After adequate consultation with farmers, KACE prioritised the collection and dissemination of timely market information, which includes prices, product availability, transport costs, and information linking sellers to buyers. Market information points (Kiosks) were established in rural areas where information is maid available to users. A mini trading floor (blackboard) was established where offers by sellers are made and buyers can make bids. This is a price discovery system that enhances the exchange of information. KACE uses telecommunications and information technology to disseminate information, i.e., through an SMS[1] service with a telecommunications company (Safaricom) and also by email. KACE operates an interactive voice response service where the information is made available in the form of voice mail to the subscriber, in English and a local language. Information is also disseminated via radio, and this has been made possible due to the rise of local FM stations in rural areas in the East African region. KACE operates a virtual trading floor over the Internet, where offers and bids are made. Since KACE is a private sector venture, it charges a levy of 0,5 to 5 percent per transaction, and a subscription fee is paid by the recipients of the market information. The telephone companies also remit a certain percentage back to KACE for all the SMS requests made to receive market information. In addition, the Internet service providers make some remittances for traffic over the Internet, and this mechanism ensures the sustainability of operations. The KACE idea has undergone great modification to get it to where it is now, and it has received lots of support from donor agencies and NGOs. This model is being replicated rapidly throughout the region, i.e., in Uganda (UCE), Tanzania (TCE) and Malawi (MACE).

Source: Jagwe J.N. (2006:2)

The KACE service is a good example of how information exchange can be enhanced in order to make smallholders more competitive in participating in modern markets.

### 4.2.2 The West African experience

Based on the fact that the local supply of food is predominantly by small-scale farmers in West African countries, there is a great need for coordinating their production and marketing, in order for them to actively compete in the market. First of all, the constraints farmers are facing need to be removed. The two major categories of constraints are system constraints and allocation constraints.

Coordination can occur in different phases which involve farmers, researchers and extension workers. According to De Lange (2003:60), the phases include:

- The diagnostic phase, in which farming systems are studied to determine the economic and institutional environment in which farmers operate. Farmers also play vital roles in this phase.
- The design phase, in which the research team identifies possible interventions.
- The testing phase in which the various identified interventions are tested on the farm. The farmers also play active roles in this phase.
- The dissemination phase where the trial results are implemented throughout the region.

Farmers are divided into groups, or they form associations or cooperatives. Various projects are carried out to help farmers, for example, the Fadama development project in Nigeria. See Box 4.4.

[1] Short Message Service on mobile telephones

***Box 4.4: The National Fadama Development Project***

The National Fadama Development Project was established by the government of Nigeria to help farmers establish their business enterprises. One of the projects involves peanut processing outside of Zaria in the northern part of Nigeria.

A grinding machine was bought for this group of 15 women at a cost of 40 000 Naira ($320). The women paid 30 percent of the value of the machine, while Fadama development project paid the rest. The grinding machine has the capacity to grind five bags of peanuts daily, but the women were only able to supply two bags a day from their own farms. Their coordinator advised them to involve other farmers who could supply peanuts, and charge them a processing fee.

Fadama development project also looks into marketing constraints facing farmers in all the states where Fadama projects are being implemented. To this end, storage facilities were built, market stalls were improved, and livestock centres were revamped.

Also, generators were bought for farmers to draw water from the Fadama water storage areas for irrigating, in order to have year-round supplies of vegetables, such as onions and tomatoes.
Source: www.freshplaza.com (2008)

The case in Box 4.4, above, shows the role of government initiatives in helping farmers to compete in the market. The national Fadama Development established in Nigeria aims at increasing the income levels of the farmers involved with the Fadama project through value addition. It also focuses on reducing poverty among the rural farmers.

The Centre for Commercial and Agricultural Information (PICA), established to collect and publish price lists via the Internet was launched in Togo to enable farmers and traders to interact over prices and availability of products. The centre will allow producers and tradesmen to consult in real time over price lists covering the ECOWAS region. The centre will also equip farmers with packages to receive free information on their mobile phones concerning the prices of 400 agricultural producers on the regional markets in West Africa, including Benin, Burkina Faso, Cape Verde, Ivory Coast, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Gambia, and Togo. This will allow people to know how much a product costs and where to get it if it is not available in one's country. These facilities will enable players to seek optimal markets for selling their produce. They will also contribute to the improvement of the producers' and consumers' living conditions. The project will contribute to promoting the agricultural sector of Togo. It will also promote the research of markets through which to sell products (Tadégnon, 2008).

Globalisation has resulted in the hasty transformation of governance and the structuring of national and regional agri-food markets in African countries, impacting on the ability of agriculture to contribute to economic growth, to reduce poverty levels, and to sustain rural development. Small-scale agriculture is the mainstay of most of the poor rural population, and it is unprepared for these changes. At the same time, there is increasing pressure to fulfil the new market requirements, which demand product quality, volume, and continuity of delivery. Accordingly, in today's commercial world, success in the market place is becoming increasingly important for developing livelihoods. This is a result of the increasing competition across the world, whereby farmers are not just competing with their neighbours for local markets but also with farmers from other countries (Ferris et al., 2006).

Smallholder farmers are facing increasing competition from medium-scale to large-scale farmers. As such, most small farming families are stuck on a production 'treadmill', whereby millions of individual farmers produce the same undifferentiated commodities, using traditional, low-input systems. Inevitably, these farmers are price takers in the market, and their food security approach, which always focuses on increasing production, can depress the market even further. The options small-scale farmers have to confront this adverse market situation involve:

- improving the competitiveness of their products in local, national, and regional markets;
- achieving economies of scale through collective action for production and marketing;
- gaining access to business development services that improve access to higher-value and/or more competitive markets and that provide employment opportunities;
- diversifying into higher value crops and/or livestock that are linked to growth markets;
- adding value to products by changing farming practices to access higher income markets, enhancing product quality and incorporating processing activities.
- entering new types of business agreements based on forward sales (contract farming) or 'appellation' that 'locks in' buyers over longer time periods at advantageous rates;
- finding off-farm work options or migrating to more lucrative employment areas, such as urban centres.

## 4.3 Stakeholder involvement and suggested roles

The participation of small-scale farmers in modern markets in sub-Saharan Africa is a multifaceted venture involving numerous stakeholders. Small-scale farmers have to be empowered adequately in order for them to participate competitively in modern markets. The areas of empowerment range from 'plot to plate', and therefore the stakeholders involved would include researchers, extension/advisory service providers, government (local and central), legislators, NGOs, policy makers, business service providers, processors, agribusinesses and consumers.

Table 4.1 outlines the tasks or roles required in the process of enhancing smallholder participation in modern markets, while suggesting stakeholders suitable to perform the tasks or fulfil the roles.

Table 4.1: Suggested roles of stakeholders

| Roles and tasks | Stakeholders |
|---|---|
| Enhancement of advisory services on good agronomic and animal husbandry practices | -NGOs<br>-Local government<br>-Central government<br>-Research organisations<br>-Farmer organisations<br>-Development partners |
| Farmer group formation and cohesion, group dynamics, skills acquisition | -NGOs |
| Provision of market infrastructure (packaging bays, storage, stalls, etc) | -NGOs<br>-Farmer organisations<br>-Local government |
| Access to agro-inputs | -Central government<br>-Private sector (agri-business) |
| Construction and upgrading of rural infrastructure (roads, electricity, telecommunications) | -Local government<br>-Central government<br>-Development partners |
| Generation and dissemination of market information | -Central government<br>-Private sector (telecommunications sector) |
| Observance of quality standards | -Government (bureaus of standards) |
| Access to credit / finance | -NGOs<br>-Banks<br>-Micro-financial institutions |
| Identification and linkages to market opportunities | -NGOs<br>-Private sector (agribusinesses) |

| | |
|---|---|
| Supportive policy environment | -Central government<br>-Local government |

As is shown in Table 4.1, the stated stakeholders have crucial roles to play in getting small-scale farmers to participate in modern markets. Starting at farm level, the NGOs play a crucial role in group formation and working with the dynamics that ensure cohesion and functionality of the group. The NGOs are instrumental in disseminating research outputs to small-scale producers. Some of the NGOs have ventured into areas of microfinance/credit and have also tackled the issue of access to agro–inputs. NGOs have also helped farmers and farmer organisations in actual linkages to markets and market opportunities. Currently, there are several approaches that have been developed by NGOs to assist smallholders to access modern markets. Table 4.2 summarises some of the approaches that have been developed and piloted by NGOs operating in East and Southern Africa.

Table 4.2: A summary of some market linkage approaches developed and used by NGOs in East and Southern Africa

| Approach | Implementing agency/location | Brief description of the approach |
|---|---|---|
| Local Economic Development approach (LED) | SNV* Mozambique | Works with the local authorities as the main partners in identifying opportunities and constraints for local economic development. Uses tools such as SWOT** and PEST***, while involving other stakeholders in identifying their roles and responsibilities in the economic development plan of the target area. |
| The FAIDA Market Linkage Approach | FAIDA Mali****, Tanzania | This is a 10-step procedure aimed at mobilising, organising and training farmers to link to markets. It involves selecting enterprises, selecting companies, selecting farmers, bringing partners together, and supporting linkages while involving others, and monitoring and evaluating. |
| The Rural Agro-enterprise Development Approach (RAeD) | CIAT<br>East and Southern Africa | This approach involves forming partnerships, evaluating and identifying market opportunities, developing business plans, strengthening rural enterprises and local business support services, assessing performance, and scaling up success, while advocating improved marketing and trade policies. |
| Learning Alliance for Agro-enterprise Development Approach (LA) | CIAT,<br>Ethiopia<br>Sudan, Kenya<br>Uganda<br>Rwanda, Burundi<br>Madagascar | This model emphasises mutual and participatory learning between research organisations, development institutions and rural communities so as to accelerate institutional change and improve knowledge management, while deepening the level of impact with rural communities. |
| The Participatory Market Chain Approach (PMCA) | CIP,<br>Uganda<br>Tanzania | This approach fosters broad participation in existing or new value chains through emphasis on the expertise of research and development institutions and their integration with different chain actors. It comprises 3 phases, which involve creating interest, developing trust and implementing collaboration. |

Source: Kit, Faida MaLi and IIRR, 2006
*A Netherlands government development agency
**Strength Weakness Opportunity Threat analysis
***Political, economic, sociocultural, and technical factor analyses
****FAIDA Mali is a development NGO working in Tanzania

Governments also have a crucial role to play as stakeholders in this venture, as they ought to support research and development to ensure competitive production. Support to extension and advisory services in order to get the research outputs into the hands of the intended users is also crucial. There are intense debates on whether governments are the best providers of extension services, however, efficient provision of extension services is crucial if small-scale farmers are to participate competitively in modern markets. Governments, together with concerned stakeholders, also have an obligation towards developing and enforcing standards. These are vital components of value chains, and if small-scale farmers are to participate in the chains, they ought to be aware of them. Governments have the overriding responsibility of formulating policies to drive agricultural development with a greater focus on the participation of small-scale farmers in modern markets. Provision of adequate infrastructure, such as feeder road networks, major roads, electricity and telecommunications are also crucial to the functioning of any value chain and requires government intervention.

The private sector is another important stakeholder in this venture, and reference is made to the agribusinesses that are engaged in the value chains of the commodities produced by small-scale farmers in sub-Saharan Africa. Other stakeholders include the financial institutions which offer credit and finance, that is, development banks, micro-credit institutions and rural financial institutions. In East Africa, the private sector has shown substantial participation in the grain industry by setting up the East Africa Grain Council, which is concerned with monitoring trade and grades and standards of grain within the region. Such initiatives reveal the importance of private sector involvement in value chain management.

## 4.4 Challenges and opportunities of including small-scale farmers

The challenges facing small-scale producers are enormous, and they range from farmer field operations right to the high end of the value chain. It is imperative for farmers to operate in groups for greater competence, but there are challenges related to group dynamics, group cohesion and the functionality of the group.

The development of skills in agronomy, animal husbandry, adding of value, consistency of supply, farm management, and observance of quality are crucial to making small-scale chain participants more competitive in modern markets. NGOs and the extension services have a major role to play in this regard.

Farmers still face the challenge of being fully integrated into value chains, and one of the aspects that is crucial in this regard is access to market information. The gathering, processing and dissemination of market information is still a challenge in sub-Saharan Africa, and has been alluded to by key players in this area. Since this is a service that benefits a large proportion of the population, it cannot be left to the private sector alone; hence there is a need for governments to support such services in order to deal with issues of sustainability and efficiency. Farmers still face *system constraints,* which, according to De Lange (2003:60), include natural risks, limited supply of marketing services, poor physical and institutional support, unfavourable legislations and policies, land issues, and access to agricultural resources. Farmers also face *allocative constraints* which include those challenges that farmers face directly and over which they have limited control. These include; illiteracy, lack of skills and knowledge, human capital, and cash flow problems.

The challenge of accessing credit and finance is crucial and requires the private sector players in this arena to be engaged. Rural development banks and micro-financial institutions ought to be more involved in designing appropriate facilities that can be accessed by smallholders.

At a much higher level, farmers are faced with stiff competition from imports that compete for similar markets due to globalisation of trade. The challenge facing small-scale farmers is to consistently produce high quality products at globally competitive prices in order to compete favourably.

Indeed, the growth of value chains in sub-Saharan Africa creates enormous opportunities for small-scale farmers to be part of the chains and to gain better revenue for their produce. The changing behaviour of consumers and the rising rates of urbanisation imply that farmers cannot do 'business as usual'.

However, governments of West African countries have enlisted the help of various NGOs and investors to assist in their bid to combat poverty among rural farmers. To this end, they have implemented various initiatives to help smallholder farmers. There are various programs being implemented, like the FADAMA development project in Nigeria, various NGOs participating in information dissemination and various World Bank assisted projects.

The challenges facing smallholder farmers in East Africa are considered generic and have a negative effect on the poor smallholder farmer's ability to participate in markets. These problems include poor infrastructure (roads and telecommunications), poor human health, and difficult markets for agricultural inputs, outputs, and finance. This is compounded by the absence of a well developed and diversified monetary economy. These problems are present in spite of most of the Eastern African countries' dependence on agriculture. The agribusiness atmosphere is typified by weak and difficult contract enforcement, imperfect information (concerning technologies, prices and other potential market players), high transaction costs[2], risks relating to production prices, and access to input and produce markets. Sadly, the brunt of these problems is faced by the marginalised and poorer farmers, although they also affect larger businesses and entrepreneurs (Dorward & Kydd, 2005).

Compounding the aforementioned challenges is a specific collection of issues that continue to plague smallholder agriculture. According to Dorward and Kydd (2005), the challenges are as follows:

1. Production and sales cycles, which are unusually long for a number of small businesses. This has the effect of increasing the risk associated with smallholder agriculture.
2. The timing of specific farming operations has a huge impact on the total yield that a farmer can achieve. Consequently, it makes sense for farmers to augment the available family labour at critical periods of the farming season. This contributes to the yield risk associated with the farmers' outputs. Because farmers are entrenched in poverty, they fail to allocate labour to their own land during labour peaks, working instead for income, and as a result they forego increases in their yields.
3. The majority of agricultural input and output markets across most of Africa are poorly developed, and because of land pressure and technical progress, there has been an increase in farmers' needs for inputs. As a consequence, farmers face limited technical choices that are linked to discontinuous switches between technologies and crops.
4. The nature of the farming that small scale-farmers undertake requires seasonal financing, and because there is higher risk involved in financing small-scale farmers, most financial institutions are not willing to invest in these enterprises. It is imperative that sustainable instruments be put in place to assist farmers to purchase critical inputs and that the risks surrounding small-scale farming are moderated.

[2] According to Kirsten and Karaan (2005), transaction costs may be described as costs other than money price that are incurred in trading or exchanging goods. In this case these would include the costs that buyers and sellers incur in protecting themselves against risks of a transaction failing (due to the absence of suppliers or buyers) by searching for and screening potential suppliers or buyers and their goods and services, then negotiating and contracting with them, and monitoring and enforcing their adherence to the contract

5. A significant share of small-scale farming output is allocated to subsistence, generating welfare but not cash. Therefore, sales of outputs fail to fully cover purchased input and labour costs.

Most African states have issues concerning land tenure agreements. The lack of viable land markets that affects the farmers' ability to borrow, to expand, or to exit with a lump sum by using land market transactions is not conducive to improved production and productivity.

Traditional thinking has been that the position of smallholders, processors and agribusinesses in their national markets is stable and that the real challenge was that of access to high return niche markets (which include high-value developed markets). Contrary to an idealistic view, there is a growing body of evidence revealing that local, national and regional markets are undergoing large overhauls, driven by a variety of factors. This revolution has seen the standardisation of grade and quality requirements in both countries that have liberalised economies and in the domestic markets of these countries (Louw, et al, 2004). The predicament that most smallholder farmers find themselves in is that they face intense competition in both the local and export markets.

For small-scale producers in Kenya to fit into the emerging structure, they have to meet quality standards and also organise themselves in marketing associations. The major challenge that farmers face is a lack of capital and a lack of ability to meet quantity and quality demands. At farmers' level the key constraints include insufficient agricultural inputs (that is seed and agrochemicals), especially for vegetables. The other constraint is lack of training and agricultural support concerning production and processing. A further constraint is the lack of financial support services and infrastructure (irrigation, transport, processing and cold storage facilities). The chief constraint in the market chain has been the lack of market transparency, incomplete information and the absence of trust among the market chain actors (Louw et al*.,* 2006).

The key lesson from the East African experience is that the large inefficiencies and informalities characterising supply chains dominated by small-scale producers could be overcome by producers being organised into producer business groups, either in the form of cooperatives or companies. Put simply, smallholder farmers who are organised are the only ones who are able to access the dynamic and emerging markets. Through collective action, farmers are able to access market information and establish regulatory bodies that ensure compliance with private grades and standards. An example of a working system in Kenya is the Githunguri Dairy Cooperatives. These cooperatives are able to compete with the other private sector dairy processors through collective action. A similar example of collective action is the organised horticultural producers in Tanzania, who have forged links a with tourist hotels in the Serengeti. An important function that persists through all of these examples is the facilitative role that the governments play in all of these cases.

A summary of the factors that are critical to inclusion in the chains includes:

1. Intrinsic components of the group (that is, commitment, trust, mutual understanding, good governance, learning among members, and culture);
2. Organisational structure of the group (i.e. an organisational setup that allows transparency, where classical examples include subcommittees for each function);
3. Access to technical advice, and interaction with Research and Development (R and D) organisations as well as with agricultural support services;
4. Common markets, changes in individual attitudes, increased incidence of prompt payments, and support by an agency;
5. Third party to play a facilitative role (usually government, which includes functions of setting up a grading and standardising system).

The organisational structure and management of farmer organisations influences the inclusion or exclusion of smallholder farmers in the dynamic market chains. In most of the innovative responses discussed above, the farmer groups had subcommittees that were in charge of various functions, for example, production, processing and marketing. Members had undergone training that improved their skills, which were critical for improved production and marketing. Factors that have sustained farmers' inclusion in the restructuring dynamic are significant, and thus an intermediary institution in the linkages between small-scale farmers and emerging markets is essential. In almost all the successful cases of including small-scale farmers, there is hidden or direct support by an external agent, hence emphasising the critical partnership between the private, public and civil stake holders. In some cases, the intermediary organisation has facilitated the linkage between farmers and markets through assurance of high quality and quality supply to the market. In others the intermediary institutions have guaranteed credit from micro-finance institutions or inputs from input stockists, thereby linking the input and output markets. Linking institutions have weaned themselves off gradually, by ensuring that the input, credit suppliers and the output buyers are confident with the supplies of small-scale farmers. This has been the case with banana production and marketing facilitated by Technoserve in Kenya and Uganda. It has also been the case with the Githunguri Dairy farmers and International financial institutions, as well as being the case with potato production by small-scale farmers and an NGO in Uganda.

In the successful cases of smallholder farmers being linked to emerging markets, the public sector has assisted the private sector to develop grades and standards. This was the case with dairy production and with the export of fresh fruit and vegetables in Kenya. It has also been the case with the floriculture sector in Kenya and Ethiopia concerning standards and phytosanitary requirements. The provision of rural access roads and other complimentary services, such as telephones and electricity, have also facilitated this. The Githunguri dairy farmers, who are within Nairobi's environs, have benefited from this development of infrastructure, whereas other organised farmers in more removed locations have had difficulties linking with the markets. This is also the case with dairy and potato production in Uganda, which has been concentrated around Kampala. To help farmers adapt to market demands, research institutions need to develop or be supportive of the development and dissemination of appropriate technologies for uptake by the farmers. The National Research Institute in Uganda, in collaboration with farmers, did trials that managed to develop a potato variety whose quality standards matched those demanded by Nando's, thereby making the small-scale farmers preferred suppliers of the buyer.

Alternatively, farmers could improve conditions at the open market and lure the supermarkets to purchase from these markets. This would have the effect of enhancing smallholders' participation in the market chain. This is based on the assumption that open markets are important centres for the sale of many varieties of fresh fruit and vegetables from small producers. Improving quality, cleanliness, and other hygienic conditions, and most important, assuring the traceability of fresh fruit and vegetables may entice supermarkets to procure from open markets (Nyoro, 2004).

Some supermarkets, particularly those in Uganda, have however been able to source FFV and milk from small-scale farmers organised in producer associations and organisations. A large number of small-scale farmers will however continue selling at rural markets where the requirements for quality, traceability and quality are less stringent. However, such requirements are not stagnant and may be inferred from experiences in other parts of the world, that is, small shops are likely to combine to form procurement clubs, while wet markets are likely to improve on quality and hygiene. It is therefore necessary to prioritise the allocation of resources towards improving operations in wholesale markets.

It is important that both the demand and supply factors are taken into consideration in order to achieve the expected amiable relationship between buyers and sellers. There are specific areas that need to be scrutinised, for example, production and post-harvest technologies, cold chains, packaging, logistics, crop calendars, and certification for particular attributes, such as food safety. Continuous interactions and negotiations between producers and buyers are critical in achieving long lasting relationships and multiparty satisfaction.

Other investments are needed to improve the rural infrastructure where FFV and dairy farming activities take place. This will facilitate the efficient delivery of the produce to market. The rough feeder roads in these areas raise the maintenance costs of vehicles. Improving the infrastructure would lower the cost of delivery and ensure that the high quality of products is maintained. Delivery would also be faster, thereby promoting availability of fresh produce to the market, especially of late, since access to refrigerated trucks is rarely possible due to their high cost.

Nevertheless, there are still some threats that linger, and these include the high prevalence rates of the HIV/Aids pandemic, the political instability in some of the sub-Saharan states and societal evils, such as, corruption. The globalisation of trade is also a threat to small actors who have to withstand stiff competition from privileged actors.

### 4.5 Concluding remarks about inclusion and exclusion

A number of studies have been undertaken on how to redress small-scale farmers' exclusion from modern markets. Unfortunately, most recommendations postulated are tautological, rarely being backed by sound economic theory. In addition, there are no clearly drawn frameworks which can be used to design programs, projects or policies for linking poor farmers to markets. Many studies suggest three entry points for redressing exclusion. First, collective action among small-scale farmers is proposed to improve their bargaining power and their economies of scale. Second, business models are required of the different private supply chain actors (markets) to procure from poor farmers. Third, deliberate public policy interventions are required to lobby or force supply chain actors to include small-scale farmers in their procurement strategies. These three entry points are necessary, but not sufficient, conditions for small-scale farmers' sustained inclusion into modern markets. The questions which need to be answered are the following: "What are the optimal mixes of these strategies? At what stage of the value chain should they be employed? and How can they be synergised to design viable and sustainable market linkage projects, programs or policies?"

## 5. INSTITUTIONS IN THE RESTRUCTURING OF MARKETS

### 5.1 Introduction

Poverty and an uneven income distribution are persistent features among smallholder farmers on the subcontinent. A vast segment of the population is isolated in rural areas, surviving on subsistence agricultural activities, especially in SSA. Given the predominant role of agriculture in their livelihoods, any strategy for slashing poverty and hunger must centre on rapid growth in the agricultural sector (World Report, 2008). Supportive government investments and well-functioning private and public market institutions, together with foresight in the design of agricultural policies are required to sustain increased agricultural output and raise rural incomes. The overarching question is how institutional arrangements can be fostered to increase the benefits of restructured agri-food systems to small-scale producers and rural entrepreneurs? (Boselie, et al., 2003).

Institutions, whether private or public, have roles to play in promoting the inclusion and participation of small-scale farmers in modern markets. Their role is to promote the generation of infrastructure (market level) and capital (firm level) that will alleviate the capital, information, and risk constraints that cause *market failure* and impede small-scale farmers' participation in these markets (Humphrey, 2006). The risk constraints include, inconsistent quality, food safety problems, and costly logistics. These are largely a result of the limited capacity of traditional wholesalers and domestic farmers (the majority are small-scale and resource-poor). Addressing these limitations is an important concern for private actors such as, supermarkets, wholesalers, and small-scale farmers who respond to profit motives; and public actors, such as government and development agencies, which are interested in involving small-scale farmers in dynamic agri-food markets for the latter's contribution to poverty alleviation and rural economic development (Humphrey, 2006).

There are a variety of institutional options by which smallholders can overcome the market failures that they typically face and that can increase their competitiveness in the high-value and non-traditional products. These include the formation of producer organisations and cooperatives on the one hand and vertical integration in the form of contracting arrangements on the other. In the horticulture industry, contracting arrangements in the form of out-grower schemes play an important role. In principle, firms provide farmers with credit, inputs, machinery, extension services, and an assured output market, while farmers offer a steady flow of raw materials, which is crucial for processing firms that may have high fixed costs (Glover, 1984).

For small-scale farmers to be able to compete in non-traditional markets such as the supermarket market, adequate conditions must exist at the market, efficiency, and policy level. Market failure refers to situations where institutional shortcomings, transaction costs, and increasing returns to scale result in natural monopoly conditions, potential market power, network economies, and non-excludability/high exclusion costs. All of the above mentioned results make it difficult to justify private investment, and risk derived from asset specificity precludes economically efficient economic outcomes. The impediments to the inclusion of small-scale farmers in supermarket channels and the necessary conditions for sustained participation in these markets relate to issues of market failure. Public involvement in the marketing chain can be seen as working primarily to resolve these issues, while directly enhancing market efficiency and reducing processors' costs (Boselie, et al., 2003).

## 5.2 The role of the public sector

There is a new paradigm that calls for improved coalition and consultation between the different stakeholders and for government to relinquish some of its control on agriculture. This includes a shift to more democratic systems for public choice at national, regional and local levels, and enhanced roles for the private sector, civil society and local governments (World Bank, 2007). It is now fashionable to think that the private sector and producer organisations can perform most market chain functions in agriculture and that the government's role should be limited to creating an enabling environment, such as setting and regulating grades and standards, ensuring food safety, and registering and enforcing contracts (Hazell, 2006:31).

This contrasts sharply with the key role that the public sector played in food staple market chains during the early years of the Green Revolution in Asia. There the public sector went far beyond a facilitating role and provided most key services itself, including research and development, extension, improved seeds, fertilizer, credit, storage, and marketing. Moreover, governments intervened to stabilise prices for producers and consumers alike, and provided subsidies for many key inputs to encourage their uptake (Dorward, et al., 2004). Africa is being asked to rely almost exclusively on the private sector and producer organisations. Hardly any credible evidence exists to suggest that the private sector can take the lead in market chains for staple foods during the early stages of agricultural development (Hazell, 2006).

Public involvement in markets is argued on the grounds of alleviating market failures (Caswell, 1997) and promoting social objectives such as reducing poverty or altering the distribution of income and/or wealth. Market failure refers to situations where institutional shortcomings, transaction costs, increasing returns to scale (leading to *natural monopoly* conditions and potential market power), network economies (benefits increase as number of adopters increases), non-excludability/high exclusion costs (making it hard to justify private investment), and risk derived from asset specificity preclude economically efficient economic outcomes. The impediments to the inclusion of small-scale farmers in supermarket channels and the necessary conditions for sustained participation in these markets relate to issues of market failure. Public involvement in the marketing chain can be seen as working primarily to resolve these issues, while directly enhancing market efficiency and reducing supermarkets' costs. Public intervention into markets is also driven by social objectives aimed at poverty alleviation through the integration of farmers into the market economy and the redistribution of wealth or income through public investments and price interventions.

The appropriate public role in promoting inclusion and participation of small-scale farmers is to promote the generation of infrastructure (market level) and capital (firm level), which alleviates the capital, information, and risk constraints that cause *market failure* and allows small-scale farmers to access and stay in the market. A stable policy environment can be an essential precondition for investors and an important means of lessening risk (Humphrey, 2006). In Zimbabwe, prior to the government's land distribution programme, there were a number of reasons for the growth in the horticultural sector, including the liberalisation of foreign exchange controls; export incentives, such as concessionary pre- and post-shipment finance schemes and corporate tax savings; and a clear statement of agricultural policy in the Zimbabwe Agricultural Framework (1995 – 2020). Kenya's development has been enhanced by an open and competitive market for airfreight, zero-rated duties on inputs and outputs, and liberalised foreign exchange markets. Governments are providing tax windows for foreign investors to enter national markets with imports of their own primary products. As tax windows close up, the foreign investors quickly begin to look for domestic supply. In most Southern African countries such as in Zambia, Zimbabwe and South Africa), agricultural policy reforms have resulted in the withdrawal of direct government involvement from agricultural marketing and input supply, removal of subsidies, privatisation of agro-parastatals, trade liberalisation in farm products, inputs and machinery etc. With this background, government has an important role to develop sustainable market support services such as, market information, extension, and infrastructure (Haantuba & Wamulume, 2004). Government policies encourage such groups, as is the case in Zambia, South Africa and many other Southern Africa countries. The government of Zambia, for instance, revisited the concept of cooperatives through the new Cooperatives Act of 1998 (Haantuba & Wamulume, 2004). Similar legislation has been put in place in South Africa and Malawi. Governments have been developing a strategy to maximise market support services to transform the poor procurement while considering the risk of unintended consequences of restructuring markets. There has been implementation and nurturing of multi-stakeholder processes to develop and implement strategies that create and support a research and information base to accompany the change process; including, early warning systems to identify unexpected changes.

## 5.3 Collective action

Farmer organisations including, farmer groups, cooperatives and farmer clubs are alternative ways to gain bargaining power in the value chain and a mechanism to improve access to information, capital, and relevant contacts. Many farmers in African countries are small-scale farmers with less than one hectare of cultivated land. One of the main difficulties for small-scale farmers is how to gain power in a value chain vis-à-vis those actors perceived as more powerful; such as, traders, agro-enterprises, and exporters. Many farmers are women and one of the main difficulties for women in agriculture is how to gain power in a value chain vis-à-vis those actors perceived as more powerful; such as, the traditionally male dominated roles of traders, agro-enterprise managers, and exporters. Other forms of organisations relate either to producer associations or trade associations involving marketers and enterprises. Each of these organisations has its internal rules of conduct. The test of the effectiveness of an organisation is to understand the extent to which the rules of conduct and the activities of the organisation are perceived as an advantage to the business of its own members.

Producers' organisations open opportunities for their members to participate in the market economy. These markets are closed to individuals, but as members of a producer organisation, even small- and medium-sized farmers can get access to markets. A producer group can accumulate produce, and negotiate better prices paid by wholesalers and better terms for the purchase of inputs by their members. Producers are linked to markets by improving their efficiency and competitiveness. Women, organised in producer groups, often increase their status and are more independent because of their proper income. Well organised groups, who ensure the participation of all members, practise democratic rules. As a result of their political weight, regional and countrywide unions of producer organisations can influence national politics in their sector. Government institutions are therefore encouraged to create a political environment that allows producer organisations to win their share in the market for their agricultural products. What types of organisational forms, among producers, could be employed to coordinate activities with other parties in the value chain through contracts? Cooperatives, producer associations, and producer groups could potentially be used in this capacity, though the legal issues behind such forms need to be clarified. How do these organisational forms vary by product? And, most importantly, can organisations that are in the interests of the participating members be developed?

The key lesson from the East African experience is that the large inefficiencies and informalities characterising supply chains dominated by small-scale producers can be overcome. This is possible by organising producers into producer business groups as either cooperatives or companies. Here, the adage that the future belongs to the organised applies. Small-scale farmers who are organised effectively are the only ones who are able to access the dynamic and emerging markets. Through such organisations, they are able to access market information either directly from the private sector and/or public sector operators and access financial resources from donors or microfinance organisations. They are also able to put in place practices that enhance adherence to private grades and standards. In Kenya, evidence from Githunguri Dairy Cooperatives, who are able to compete with the other private sector dairy processors, validates this. In Tanzania, organised horticultural producers are able to produce and link up with tourist hotels in the Serengeti. The governments in all the East African cases have played a facilitative and non-direct role in the functions of the producer business groups.

The organisational structure and management of the farmer organisations has influence on the inclusion or exclusion of smallholder farmers in the dynamic market chains. In most of the innovations, the farmer groups had subcommittees that were in charge of various functions for example, production, processing, and marketing. Members underwent training that improved their skills and was critical for improved production and marketing. Therefore, factors that have sustained farmers' inclusion in the dynamic markets are good governance, culture, commitment, access to technical advice, trust, mutual understanding and learning among members, common market, changes in individual attitudes, increased ability to experiment with Research and

Development (R & D) organisations, integration into the support services, prompt payments, and support by an agency.

## 5.4 The role of the private sector

In the private sector, retailers are taking more control over what they are buying and selling, especially in the area of high value products. Wholesalers are setting up their own procurement companies and are becoming *new intermediaries* servicing the needs of retailer buyers even though the retailers may still set their own procurement decisions. The issue of trade policy and the opening up of markets to agri-food imports is on the rise. There is concern that when markets are fully open and where local agribusiness is not developed and supportive of domestic farmers, growth in downstream agribusiness, i.e., retail, will increase imports (Proctor 2007:21). It has been proved that when the private sector is directly involved in the development of a local producer supportive agribusiness there is better inclusion of small-scale farmers. This is because producers do not understand the needs of the private sector. However, there is a lack of evidence on this point (Proctor, 2007:8). On the other hand, the private sector has been engaging in multi-stakeholder dialogue to help guide public policy and investment in areas of mutual interest, for example, integrated quality assurance technology.

The private sector has been part of the introduction of contract farming which has been implemented widely in developing countries as a means to reduce risk and ensure throughput volumes of known quality and price (Kirsten & Sartorius, 2002). Value adding on the agricultural food products produced in these regions is one such strategy that would help to attract more contractors. Thus, farmers can work together with processing enterprises to create new markets for high-value farm products, which can be sold internationally (Louw & Ngqangweni, 2004). Innovative programmes of bringing farmers and supermarkets together may be enhanced by several agreements such as, contracting and the provision of adequate support services to the small-scale farmers. An example is Pick n Pay, South Africa's second largest retailing store, which contracts several farmers to supply them with certain products. Pick n Pay specifies how the product should be planted, the farming practices and processing methods to be used, and the delivery time. Shoprite, which has close to 100 stores in Africa, is also increasingly rendering support services to small-scale farmers in Zambia (Louw & Ngqangweni, 2004). There are several other examples of successful contractual arrangements throughout the sub-Saharan region. In Tanzania, in addition to imports from South Africa, Shoprite has local partners who are either individuals or companies (e.g., Fruit and Veg City Limited) that supply it with fruit and vegetables. In this arrangement, however, risks are fully borne by suppliers because they must first bring test samples to Shoprite and subsequent supplies depend on sales of the test samples. In addition, advance financing is never practised and payments to local suppliers are only effected after the produce has been sold.

## 5.5 Institutional innovations

There are exciting innovations of double-specialised intermediaries that provide both market demand and farmer support. These are often initiated by NGOs and donors but also by the private sector. Such specialised agents provide brand marketing, production support, and procurement flexibility and add value that enables participation at a higher level for small-scale farmers (Proctor, 2007). In the success cases where smallholder farmers are linked to the emerging markets, the public sector has facilitated the private sector to develop grades and standards and to be clear on phytosanitary requirements as in the case of dairy production in Kenya or the export of fresh fruits and vegetables in Kenya and Ethiopia. Provision of rural access roads and other complimentary services such as telephones and electricity have positively facilitated this.

Box 5.1 provides a case study example of a successful multi-sector intervention and identifies how small-scale farmers could be better included in the dynamic markets. The case study identifies the technical, organisational, managerial, financial, and other changes that small-scale producers have to implement in order to be included in the dynamic markets. The financial and non-financial costs and benefits the small-scale farmers obtain from their inclusion in dynamic markets and the sustainability of inclusion are also investigated. In essence the investigation sought to evaluate the potential of up-scaling and replicating the innovation and the lessons that can be derived for public and private policies to promote market inclusion of small-scale producers elsewhere.

***Box 5.1: Mara Horticultural Project***

Against the challenges that commonly affect SSFs, many NGOs, donors, exporters, and farmer associations are undertaking initiatives to overcome constraints to market access for small-scale farmers. However, little knowledge about what makes such market access initiatives successful is available for guidance. While there is evidence that high-value markets can be of great potential benefit to small-scale farmers, not enough is known about how market access can be facilitated, nor do we sufficiently understand the social, economic, and environmental benefits and costs of different mechanisms to facilitate market access in different contexts.

A study on the restructuring of markets and supply chains on Mara Small-holder Horticulture Project (MSHP) shows that when small-scale farmers are assisted in acquiring support from various institutions this improves their skills and knowledge in horticultural production and other related issues. In the Mara project participating farmers have improved crop management practices, use of farm inputs, post-harvest handling of produce, and have maintained quality standards of produces. The MSHP has linked farmers to the high-value markets of Serengeti National Park tourist hotels where they fetch a reasonable price and regular demand throughout the year. Due to the improved quality of the produce sold by the innovative farmers, they have acquired more markets from lodges and camps at the Sirari (Tanzania-Kenya) border and Bunda Teachers Training College.

Source: January, *et al.*, 2007

## 5.6 Conclusion

The studies in West and East Africa on agri-food marketing and processing give a contrasting view with regard to smallholder farmers' access to dynamic markets. The study shows that there is a need for a balanced approach in terms of marketing opportunities presented by both the formal and the informal agro-food sector (in both retail and agro-processing). Sauiter, et al. (2006) demonstrates the potential of a highly dynamic artisan, small-scale and largely feminine processing sector based on local networks and social capital to respond to part of the challenge of the evolving urban demand. Africa displays a striking and original diversity of contractual and institutional devices, both for securing agri-food industry supply and to secure farmers' access to markets. Sustained, long-term commitments by governments and donor agencies are also needed to allow for gradual support strategies and to promote the emergence of deliberative institutions within the supply chains.

The foundation of sustainable success requires organisation at producer level, receptive business, and enabling public policy that is facilitated effectively. The sustainability of change is more likely to be achieved by enabling agents (e.g., NGOs), who work on helping players (people) in the value chain rather than play a functional market transaction role. Donors need to rethink the critical areas of investment to support producer inclusion in dynamic markets versus rash, untargeted donor investments that may cause distortions and waste resources. The facilitation of market chain actors, the development of vertical integration and the reduction of transaction costs are integral to build capacity of market chain actors.

Although the private sector is underutilised as a partner in development, it should be noted that public and private policy makers enable successful outcomes when they encourage supply chain stakeholders to perform to their best potential. This is because the lack of trust between key stakeholders and a common agenda is a key barrier to change. National multistakeholder task groups/working committees set in a neutral space are one key to building understanding between stakeholders, sharing evidence and information, and affecting change. Multi-stakeholder processes benefit from being embedded in a governance and legislative framework. Successful small-scale farmer engagement requires credible facilitation that is context responsive and enables flexibility.

Policy makers need to understand the dynamics, given current policy, of the drivers of market restructuring (global, national, local) and their impact on smallholders as well as on the wider rural economy (poverty). To achieve this, there is a need to professionalise the civil service in providing market based services (or support their provision by third parties) as public policy can effect outcomes positively or negatively, intended or unintended. Policy makers need to coordinate to ensure that the following essential institutional conditions are in place for all.

# 6. INSIGHTS, FINDINGS & RECOMMENDATIONS

## Introduction

Agricultural marketing chains are changing dramatically in many sub-Saharan African countries. The smallholder farmer is increasingly being asked to compete in markets that are much more demanding in terms of quality and food safety standards, more concentrated and integrated, and much more open to international competition. Supermarkets are playing an increasingly dominant role in controlling access to retail markets, and direct links to exporters are often essential for accessing high value export markets. Small scale farmers in sub-Saharan Africa (SSA) are struggling to diversify into higher-value products; they must increasingly meet the requirements of such demanding markets, both at home and internationally. The transformation of agro-food markets in SSA has brought new opportunities to smallholder farmers who can successfully access and compete in the transformed markets; however, they are also a serious threat to those who cannot.

The transformed food markets have become more demanding. Structural adjustment and privatisation programmes have left many smallholder farmers without adequate access to key inputs and services, including farm credit which is necessary when accessing these transformed food markets. State agencies no longer provide direct marketing and service functions to smallholder farmers, leaving a vacuum that the private sector has yet to fill in many countries (Kherallah et al. 2002). The removal of subsidies has also made some key inputs, such as fertiliser, prohibitively expensive for many small scale farmers, and the removal of price stabilisation programmes has exposed some farmers to greater downside price risks in markets. These problems are especially difficult for smallholder farmers living in more remote regions with poor infrastructure and market access. Within this context, there is a growing view that most smallholders do not have a viable future in farming, and that agricultural development should now focus on larger, and more commercially oriented, farms that can successfully link to the new types of market chains.

There are two types of restructuring of food markets which have been experienced in SSA, these are:

- Firstly, international processing and retail corporations' investment, and increased competition from imports, have led to changes in regional and local agri-food markets which have reduced domestic markets to a less reliable refuge for small scale producers.
- Secondly, changes in export markets, such as horticultural trade with Europe, characterised by exacting private sector food safety and environment standards (e.g. EUREPGAP) and new European regulations, in a fiercely competitive market, make it increasingly difficult for smaller scale farmers to thrive. In order for smaller scale farmers to participate, they need economies of size of production, high quality products of a certain size, and consistency to meet quality and supply requirements of retailers and consumers[3].

This synthesis is restricted to the domestic agri-food markets, focussing on the retailers and agro-processing sub-sectors. However, the insights and lessons presented in this chapter were drawn from studies which were focusing on global value chains. The overall findings of this research on the restructuring of food markets in SSA, is that their food markets are restructuring, although the extent varies between countries and between regions.

There has been slow expansion of retail chains in most countries, especially in West Africa, where the traditional and informal markets still play a significant role in terms of food distribution. Despite the fear of lack of access for smallholder farmers to supermarkets, the restructuring process has had little impact on smallholder agriculture. The duality of the agricultural sector in most SSA countries has made it less relevant for smallholder farmers to supply modern markets such as supermarkets and agro-processors, since large scale farmers and agribusiness can adequately meet the supply chain demands for these dynamic markets. Despite this there are still opportunities which have been made available through the advent of supermarkets and agro-processors in SSA. However, without targeted support from civic society (NGOs and donors), and both the private and public sectors, coupled with some levels of organisation among farmers, it is difficult for smallholder farmers to meet the supply chain requirements set by these supermarkets and agro-processors. There is therefore need for coordinated efforts among different stakeholders, to achieve transformation of smallholder agriculture in SSA.

## Major insights and success

This section gives summaries of the different insights and lessons which have been obtained from the wide array of research works which have been undertaken on the subject of the dynamics of food markets in SSA and the subsequent implications on smallholder agriculture.

### Political economy

SSA has vast agricultural potential; unfortunately, the sub-continent is faced with a wide variety of challenges. These challenges range from low productivity, high production and marketing risks including food insecurity, widespread poverty, hunger, and malnutrition. In addition to these, there is insufficient investment in agriculture by both the public and the private sector. In most SSA countries, agriculture contributes more than 20 percent to the GDP of the different economies; however the sector is not given the priority it deserves when it comes to resource allocation and expenditure. Most research on African agriculture recommends that the agricultural sector should be supported as the main driver for most economies in SSA. The growth potential lies in transforming smallholder agriculture from subsistence production to commercial production systems.

[3] It was calculated that the percentage of wastage in Tanzania to comply with EUREPGAP for exotic vegetables is varying between 20% and 46% of sales price.

## Restructuring process

Agricultural supply chains are changing dramatically in most SSA countries, with most rapid transformation occurring in Eastern and Southern Africa. The restructuring of food markets in SSA is unequal and patchy across the different regions and countries. The transformation of food markets in SSA is taking place at different levels of the agri-food economy, that is, at local, regional and national levels. In most countries, restructuring has occurred at the national level but it has not been fully transmitted to the household level. The transformation process is driven by factors such as income growth, increasing disposable incomes, population growth, urbanisation, and changes in consumer tastes and preferences. The transformation has also brought the emergence, and fading out of, some supply chain actors; the retail function is displacing the wholesale function and structure of the informal marketing channel. The displacement of the wholesale function is not uniform across all the countries; in some countries the wholesale function and the informal sector are also experiencing some levels of expansion and transformation. Overall there are major diversities in SSA with regards to the impact of restructuring of food markets on smallholder farmers. In some regions the impacts are positive, neutral or negative.

## Rise of supermarkets

The SSA retail food sector is primarily made up of formal and non-formal sectors. The formal sector consists of retail chains, whilst the informal sector consists of street vendors, hawkers, and those traders selling food products in housing estates. Supermarkets are playing an increasingly dominant role in food retail due to the increased demand on quality and food safety set by an expanding middle-income class in SSA. Most countries in SSA have experienced an increase in numbers of retail chains and most of these retailers, such as Shoprite and Game, are products of Foreign Direct Investment. The rise of supermarkets in SSA started in Eastern and Southern Africa, and more recently, West Africa has joined the wave. South Africa and Kenya have the most dominant retail chains which have expanded throughout the sub-continent. These supermarkets have established coordinated supply chains whereby they procure fresh produce from a few selected farmers who have the means to meet the food quality and standards demanded by the supermarkets. In most regions, particularly in West Africa, food sales through supermarkets have remained minimal, with the exception of South Africa, while street markets and informal vendors are still the main conduits of food distribution. Thus, the implications of supermarkets on smallholder agricultural businesses are not as severe as originally postulated by most researchers.

## Agro-processing

Agro-processors have also expanded throughout the sub-continent in a similar fashion to that of supermarkets. Agro-processing sectors in SSA have increased in dominance as a result of the increased demand for processed goods which has largely resulted from urbanisation, change in consumption patterns and population growth. Most large agro-processing initiatives in SSA have also been a result of FDI, especially from South Africa and Europe. The advent of agro-processing initiatives has had a significant impact in the way in which food markets function in SSA. The markets have shifted their procurement channel from wholesalers to preferred suppliers who are part of their growing programs. There are various forms of growing contracts which are used by processors; in most countries formal written contracts are being used. The use of contracts has changed the governance of the agricultural supply chain in SSA from spot transactions to a more hierarchical structure. This has brought about a number of challenges regarding supply chain relationships, which include the withholding of supplies by farmers, and late payment by agro-processors to small scale producers. Several studies show that these supply contract programmes are more compatible with large scale farmers than with small scale farmers. Despite this, there are intermediaries, especially in Western Africa, which have been developed to act as a conduit between smallholder farmers and agro-processors.

### Inclusion and exclusion of smallholder farmers

The restructuring process has brought both opportunities and challenges for smallholder farmers in SSA. There are benefits for those who can successfully access and compete in the transformed markets, but lack of access is also a serious threat to those who cannot. The restructured markets offers opportunities for small scale farmers to expand through extensive support in terms of access to finance, technical know-how and a receptive market. On the other hand, markets have become more demanding: structural adjustment and privatisation programmes have left many smallholder farmers without adequate access to key inputs and support services, including farm credit. State agencies no longer provide direct marketing and service functions to smallholder farmers, leaving a vacuum that the private sector has yet to fill in many countries. This is aggravated by the high volatility of commodity prices, under investment by the private sector, the HIV/AIDS pandemic, decaying infrastructure and socio-political unrest.

The removal of subsidies has also contributed to the production plight of small scale capital-poor farmers, for example, fertiliser has become prohibitively expensive for many small scale farmers, and the removal of price stabilisation programmes has exposed some farmers to greater price risks in markets. These problems are especially difficult for smallholder farmers living in more remote regions with poor infrastructure and difficult market access conditions. Within this context, there is a growing view that most smallholders do not have a viable future in farming, and that agricultural development should now focus on larger and commercially oriented farmers that can successfully link to the new types of market chains. Several market linkage initiatives have been tried out with regards to linking smallholder farmers with supermarkets or processors. The overall conclusion from the various studies on this topic is that there is need for a total mindset shift among smallholder farmers in SSA, coupled with a sustained and coordinated support from external actors such as the private sector, donors, NGOs and the public sector.

### Collective action and inclusion

The key lesson from the Eastern African Experience is that the large inefficiencies and formalities characterising supply chains and the domination of small scale producers could be overcome by producers being organised into producer business groups, either in the form of cooperatives or companies. Put simply, smallholder farmers who are organised are the only ones who are able to access the dynamic and emerging markets. Inclusion requires that farmers be allocated into groups and networks that also allow produce to be pooled. The aim of this is to fulfil the desired consistency volumes and quality of product, at the times they are required, that a single farmer may not be able to meet. The same networks give farmers collective bargaining power to negotiate better prices and conditions in a negotiating forum. Through collective action, farmers are able to access market information, and set up regulatory bodies that ensure compliance with private grades and standards

## Conclusion

Several studies on agro-food markets in SSA countries showed that the informal sector is still prevalent. Formal food markets (supermarkets and processors) are still in their infancy with regards to growth and expansion. Most studies reveal that the demand for food in urban areas is limited by low purchasing power, and most consumers have a strong preference for traditional foods that are suited to their diverse social and ethnic backgrounds. Despite this, the demand for processed and quality fresh food is growing, especially due to the recent increase in the middle income class across the sub-continent. Both formal and informal food markets are changing, constantly driven by lifestyle changes brought about by urbanisation, income growth, changing family structures, and democracy. The transformation of agro-food markets in SSA has been characterised by the different extents of “supermarket-isation” especially in the urban areas. The implication of this transformation is mixed; firstly, it is positive with regard to consumers who can now access quality food products (fresh and processed). A second positive aspect is that it has created new supply channels for farmers. The latter attribute, favours large scale farmers to small scale farmers. The negative aspects are that the "supermarket-isation" process is displacing the wholesale function and the informal sectors which are currently the main supply channels for smallholder farmers. In addition, among many other factors, smallholder farmers are inhibited from participating in modern markets due to low productivity, poor quality of their produce and high transaction costs in terms of accessing markets.

The challenging issue is that smallholder farmers are not as efficient in their production systems, thus their average cost of production due to *inter alia* product rejections are a main barrier to competitive entry into the formal markets. Therefore there is need for sustained capacity building for farmers to improve their competitiveness. The importance of developing small scale farmers' resilience was noted. Whilst the inclusion of smallholders in dynamic markets may matter, their adaptability to dynamic change may be as, or even more, important. In addition farmers should be encouraged to take advantage of collective action, either as cooperatives, producer organisations or other forms of associations. Collective action enables individual poor farmers to attain economies of scale in terms of size of supply and scope of produce, which will allow them to engage on a level negotiation platform.

## Recommendations

To redress the negative effects of the restructuring process there is need to address certain issues, and for concerted efforts from all stakeholders: public and private sectors, and farmers. Proctor (2007b) developed the framework for institutional facilitation given in Figure 6.1.

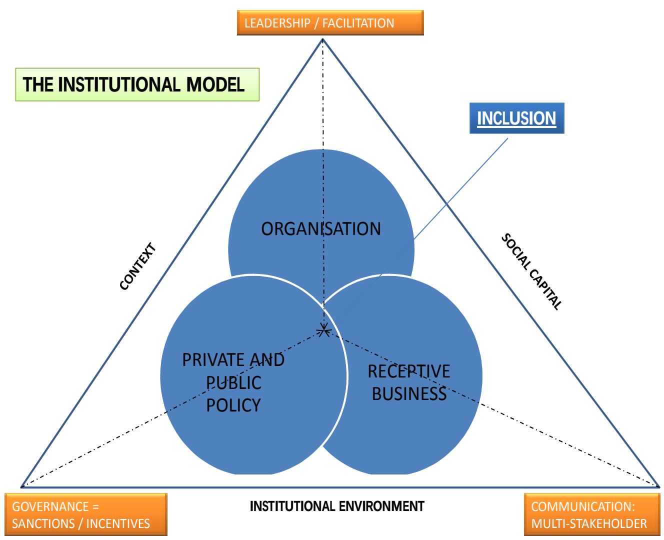


Figure 6.1: Proposed institutional framework

Source: Proctor, 2007b: 14

In effective supply chains, there is a level of interdependence amongst the different stakeholders, although this could be characterised by power imbalances. To address the issues of exclusion and inclusion, the different recommendations reflect interdependency, and at the same time, also reflect on the importance of governments to create an environment that is conducive to business. This includes political stability, infrastructure development, rural focus, pro-poor growth strategies, and an emphasis on economic development as opposed to economic growth. For any country to prosper economically, there is a basic pre-requisite mix of factors that are prescribed, which *inter* *alia* include good public governance, stable political and macroeconomic climate, enforceable commercial laws, appropriate financial services, protection of property rights, and adequate infrastructure.

The private sector should be innovative in terms of the way they deal with small scale farmers through business models which allow them to deal with small scale farmers without compromising viability. There is need for collaboration between the public and the private sector in terms of linking smallholder farmers to formal markets. In addition to these things, it should be noted that empowerment of smallholder farmers is in the public interest, thus governments in the region should prioritise designing policies which enable integration of smallholder agriculture into formal agribusiness. There is need to invest in more research on the restructuring phenomenon, with regard to the design of relevant business models, public policies and individual strategies for farmers. Such research should produce a framework with structured layering throughout the supply chain, indicative of areas where donors, or participating NGOs, private institutions and government can latch on with their endeavours ensuring that the necessary flow of produce, knowledge and support are complementary.

The following section presents specific recommendations for the different actors in agro-food industry in SSA.

### Recommendations for farmers

To confront the dynamic market situation, smallholder farmers have to:

- achieve economies of scale through collective action for production and marketing and thus improve consistency in volumes and quality offered, improve negotiation power and improve competitiveness of their products in local, national, and regional markets through farmers' networks that regulate quality standards,
- gain access to business development services, for instance, training in production, marketing and finance that will improve access to higher-value/ more competitive markets, and provide employment opportunities,
- diversify into higher value crops/livestock that are linked to growth markets,
- add value to products by changing farming practices to access higher income markets, enhance product quality and incorporate processing and packaging activities,
- enter new types of business agreements based on forward sales (contract farming) or 'appellation' that 'lock in' buyers over longer time periods during advantageous conditions,
- find off-farm work options or migrate to more lucrative employment areas such as urban centres.

### Recommendations for agribusiness

The measures through which the private sector can endeavour to accommodate pro-poor business and development are listed as follows:

- low cost credit schemes which enable especially the resourceconstrained farmers to finance production inputs
- contract farming provide a guaranteed market, especially for smallholder farmers in remote areas. Given the poor performance of agriculture in many SADC countries, contract farming brings about improved marketing opportunities, incentives, and increased income for farmers. Contract farming can be used as a way to link small scale farmers with agribusiness and can also contribute to both increased income for producers and higher

profitability for sponsors, e.g. SEEDCo in Zimbabwe, and the major sugar companies in South Africa and Swaziland

- inhance dissemination of marketing information through marketing information systems/technologies so that farmers have access to real time prices
- harmonie or mutually benchmark the growing array of overlapping and competing private protocols on good agricultural and manufacturing practices, hazard analysis and critical control point (HACCP) systems, and other process standards. This would reduce agribusiness costs as well as supplier costs while enlarging and diversifying the base of potential supplier countries as well as establish market infrastructure such as collection points or warehouses in the remote areas in order to reduce packaging, transport and transaction cost incurred by farmers in selling their commodities. Agribusinesses must engage governments and form collaborative and joint programs with governments (private-public partnerships) and donor agencies in providing technical assistance to suppliers to enable them to meet the emerging requirements

### Recommendations for governments

Governments of SSA countries should understand the implication of restructuring food markets on smallholder agriculture with regards to issues such as market access, access to investment resources, and compatibility of current public extension curricula. The specific recommendations for the government include:

- access to sound technical advice, interaction with Research and Development (R&D) organisations, as well as agricultural support services, extension and training are required. Governments should be actively engaged in building the capacity of smallholder farmers through relevant extension and training programs. This removes production capacity bottlenecks among smallholder farmers which is one of the limiting factors when it comes to successful integration of smallholder farmers into the main stream agribusiness, (Louw et al 2007:74). Governments should develop relevant pro-poor institutional arrangements, which allow them to influence SHF access to markets, and at the same time avoid distortion of the food markets
- there is need to create enabling environment for small holder producers in developing countries through creating awareness and benefits of private standards (HACCP, EUREPGAP) with regards to access to the formal retail and agro-processing sub-sectors
- third parties are needed to play a facilitative role (usually government) and include functions of setting up a grading and standard system, logistics, enforcing compliance, etc
- governments need to review institutional mandates for influencing, regulating and supporting private sector investment in agribusiness and agro-industry. The scope of work which ministries of agriculture are legally chartered to carry out, organised to perform, staffed to deliver, and funded to support is a major issue that must be reviewed
- When considering policy design, there is a need to support public-private sector dialogue and activities, in order to develop networks and synergies. There is also a need to provide a more conducive policy environment which includes macro-economic stability, political stability and contract enforcement focussing on pro-poor policies (equity focused policies), etc.

## Recommendations for regional initiatives

The current state of regional trade blocs that are overlapping, serve only to further divide the African states and, as such, limits Africa from achieving her full potential due to the conflicts that arise as a result of belonging to more than one trade bloc. A harmonised view, especially regarding trade will go a long way towards achieving economic development. By making the most of the agro-economic differences that are apparent amongst SSA countries, African policy makers should be striving towards the development of a common agricultural policy by:

- exploiting the diversity in the region to unlock its comparative advantage and agricultural potential, especially in the northern parts of the SSA region including intra-regional initiatives such as ECOWAS and COMESA
- stimulating diversity (in needs, production potential, in soil and climate, comparative advantages and stages of development) to inspire rural development and trade in the region
- create a development path which optimises the regional bargaining position in intra-regional and international markets
- construction and development of infrastructure necessary for value chain procurement centres in production regions, (both remote and those in the vicinity), warehousing, packaging and logistics, in remote areas
- facilitation of the development of market chain actors, through building vertical integration and reduction of transaction costs within the market chain
- capacity building of market chain actors at the various supply chain levels
- develop institutions that provide state-of-the-art research and analytical services, and development of national capacity to provide world class service
- promote and facilitate participation in regional, national and international trade negotiations and agreements
- professionalise the civil service to provide market-based services (or support their provision by third parties)
- provide demand driven research, interactive research and development, and use research to solve farmers' problems.
- prioritise South-South and intra-regional trade
- capitalise on regional economies of scale; through adoption of common and mutually recognised standards and grading, while coordinating market information services to make information available region-wide
- making the borders less bureaucratic by simplifying customs procedures, adopting simple tariff structures, and addressing the agreement proliferation issue
- clarifying the role and scope of existing regional and international agreements by eliminating differences between intra-SADC bilateral agreements and regional policies
- regional trade bodies (EAC, ECOWAS, SACU, SADC, COMESA) should be integrated so as to remove restrictions and bottlenecks in terms of the flow of goods
- the region must align itself with trade treaties that are in harmony, and by so doing avoid entanglements in unrealistic Customs Union agreements

## Recommendations for research

There is need to establish research projects with large research institutions in the region like FARA, ASARECA, FANRPAN or AERC to address the following issues:

- analysing country, regional and global trends, changes and factors affecting the transformation of agro-food systems and focusing on the potential effect on smallholder agriculture

- characterisation of agro-industries in the region, focusing on leveraging the regional supply chains
- development of information and knowledge management systems for agribusiness as well as small scale producers and processors, and inter-professional organisations
- analysis and formulation of business models or strategies for improving the agribusiness sector in the region, while focusing on country specific strategies
- setting policy dialoguing platforms with countries at the regional level, bringing interested stakeholders (civic, both public and private sectors, as well as individuals) to debate on important matters regarding agriculture and agribusiness.
- analysis of models or arrangements linking smallholder farmers with commercial farmers, exporters or agro-processing firms in long-term relationships combining cooperation, coordination, and services provision
- design and implement initiatives that improve the capacities of smallholder farmers and small agro-enterprises to participate in value chains for high value products including branded and certified products
- Establsih a comparative research project to identify the determining factors in different cultural and ethnical groups or communities that encourage or withhold them (groups or individuals) from participating in different business forms
- identify the structured layering (nodes) of a supply chain which will identify the areas where donors or participating NGOs, private institutions and government can latch on, with their endeavours, ensuring that the supply chain will be holistically supported

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## 8. Annexure

Annexure (i) : FDI stocks in Africa from selected developing Asian economies (in USD Millions)

| Region / Country | China 2005 | India 2004 | Malaysia 2004 | Pakistan 2004 | S. Korea 2002 | Singapore 2003 | Taiwan 2002 |
|---|---|---|---|---|---|---|---|
| Africa | 1 595.3 | 1 968.6 | 1 880.1 | 93.0 | 480.5 | 3 508.9 | 224.0 |
| North Africa | 618.4 | 974.5 | 416.9 | 58.5 | 349.0 | .. | .. |
| Algeria | 171.2 | - | - | - | 102.8 | .. | .. |
| Egypt | 39.8 | - | 93.8 | - | 102.3 | .. | .. |
| Libya | 33.1 | 30.0 | - | 58.5 | - | .. | .. |
| Morocco | 20.6 | 32.5 | 2.3 | - | 39.3 | .. | .. |
| Sudan | 351.5 | 912.0 | 320.8 | - | 104.5 | .. | .. |
| Tunisia | 2.2 | - | - | - | 0.1 | .. | .. |
| Other Africa | 976.9 | 994.1 | 1 463.2 | 34.5 | 131.5 | 3 508.9 | 224.0 |
| Angola | 8.8 | .. | .. | .. | .. | .. | .. |
| Botswana | 18.1 | .. | .. | .. | .. | .. | .. |
| Cameroon | 7.9 | .. | 0.3 | .. | 0.7 | .. | .. |
| Cape Verde | 0.6 | .. | .. | .. | .. | .. | .. |
| C.A.R | 2.0 | .. | .. | .. | 0.6 | .. | .. |
| Chad | 2.7 | .. | 187.6 | .. | .. | .. | .. |
| Congo (Brazaville) | 13.3 | .. | .. | .. | .. | .. | .. |
| DR Congo | 25.1 | .. | .. | .. | .. | .. | .. |
| Côte d´Ivoire | 29.1 | .. | .. | .. | 36.3 | .. | .. |
| Equatorial Guinea | 16.6 | .. | .. | .. | .. | .. | .. |
| Ethiopia | 29.8 | .. | .. | .. | 0.6 | .. | .. |
| Gabon | 35.4 | .. | 19.7 | .. | .. | .. | .. |
| Gambia | 1.2 | .. | .. | .. | .. | .. | .. |
| Ghana | 7.3 | .. | 55.3 | .. | 1.9 | .. | .. |
| Guinea | 44.2 | .. | 13.2 | .. | .. | .. | .. |
| Kenya | 58.3 | .. | 0.3 | .. | 2.0 | .. | .. |
| Liberia | 15.9 | .. | 4.5 | .. | .. | .. | 131.8 |
| Madagascar | 49.9 | .. | 0.3 | .. | .. | .. | .. |
| Malawi | 0.7 | .. | 3.3 | .. | .. | .. | .. |
| Mali | 13.3 | .. | .. | .. | .. | .. | .. |
| Mauritania | 2.4 | .. | .. | .. | .. | .. | .. |
| Mauritius | 26.8 | 948.9 | 618.7 | .. | .. | 3 508.9 | .. |
| Mozambique | 14.7 | .. | 9.1 | .. | .. | .. | .. |
| Namibia | 2.4 | .. | 90.5 | .. | .. | .. | .. |
| Niger | 20.4 | .. | .. | .. | .. | .. | .. |
| Nigeria | 94.1 | .. | .. | 1.5 | 12.0 | .. | .. |
| Rwanda | 4.7 | .. | .. | .. | .. | .. | .. |
| Senegal | 2.4 | 22.2 | .. | .. | 0.5 | .. | .. |
| Seychelles | 4.2 | .. | 0.3 | .. | .. | .. | .. |
| Sierra Leone | 18.4 | .. | .. | .. | .. | .. | .. |
| South Africa | 112.3 | 23.0 | 456.2 | .. | 73.5 | .. | 29.6 |
| Togo | 4.8 | .. | .. | .. | .. | .. | .. |
| Uganda | 5.0 | .. | .. | .. | .. | .. | .. |
| Tanzania | 62.0 | .. | 3.9 | .. | 2.1 | .. | .. |
| Zambia | 160.3 | .. | .. | .. | .. | .. | .. |
| Zimbabwe | 41.6 | .. | 0.3 | .. | .. | .. | .. |
| Unspecified others | - | - | - | 33.0 | - | - | 62.6 |
| **Total world** | 57,200 | 11,039 | 41,508 | 749 | 31,102 | 90,242 | 34,718 |

*Source*: UNCTAD, Asian Foreign Direct Investment in Africa: Towards a New Era of Cooperation among Developing Countries, table I.5, p. 19

Annexure (ii): Population rankings for African Countries.

| Rank | Country | No. of people |
|---|---|---|
| 1 | Nigeria | 135,031,164 |
| 2 | Egypt | 80,335,036 |
| 3 | Ethiopia | 76,511,887 |
| 4 | Congo-Kinshasa | 65,751,512 |
| 5 | South Africa | 43,997,828 |
| 6 | Tanzania | 39,384,223 |
| 7 | Sudan | 39,379,358 |
| 8 | Kenya | 36,913,721 |
| 9 | Morocco | 33,757,175 |
| 10 | Algeria | 33,333,216 |
| 11 | Uganda | 30,262,610 |
| 12 | Ghana | 22,931,299 |
| 13 | Mozambique | 20,905,585 |
| 14 | Madagascar | 19,448,815 |
| 15 | Cameroon | 18,060,382 |
| 16 | Côte d'Ivoire | 18,013,409 |
| 17 | Burkina Faso | 14,326,203 |
| 18 | Malawi | 13,603,181 |
| 19 | Niger | 12,894,865 |
| 20 | Senegal | 12,521,851 |
| 21 | Zimbabwe | 12,311,143 |
| 22 | Angola | 12,263,596 |
| 23 | Mali | 11,995,402 |
| 24 | Zambia | 11,477,447 |
| 25 | Tunisia | 10,276,158 |
| 26 | Guinea | 9,947,814 |
| 27 | Rwanda | 9,907,509 |
| 28 | Chad | 9,885,661 |
| 29 | Somalia | 9,118,773 |
| 30 | Burundi | 8,390,505 |
| 31 | Benin | 8,078,314 |
| 32 | Sierra Leone | 6,144,562 |
| 33 | Libya | 6,036,914 |
| 34 | Togo | 5,701,579 |
| 35 | Eritrea | 4,906,585 |
| 36 | Central African Republic | 4,369,038 |
| 37 | Congo-Brazzaville | 3,800,610 |
| 38 | Mauritania | 3,270,065 |
| 39 | Liberia | 3,195,931 |
| 40 | Lesotho | 2,125,262 |
| 41 | Namibia | 2,055,080 |
| 42 | Botswana | 1,815,508 |
| 43 | Gambia | 1,688,359 |
| 44 | Guinea-Bissau | 1,472,780 |
| 45 | Gabon | 1,454,867 |
| 46 | Mauritius | 1,250,882 |
| 47 | Swaziland | 1,133,066 |
| 48 | Comoros | 711,417 |
| 49 | Equatorial Guinea | 551,201 |
| 50 | Djibouti | 496,374 |
| 51 | Cape Verde | 423,613 |
| 52 | Sahrawi Arab Democratic Republic | 382,617 |
| 53 | São Tomé and Príncipe | 199,579 |
| 54 | Seychelles | 81,895 |
| | Total | 934,283,426 |

Source: Wikipedia, July 2007 estimates

Annexure (iii): Average yearly urbanisation growth as percentages.

| Country / Region | 1970–1975 | 1975–1980 | 1980–1985 | 1985–1990 | 1990–1995 | 1995–2000 | 2000–2005 |
|---|---|---|---|---|---|---|---|
| *Africa* | 4.37 | 4.45 | 4.38 | 4.26 | 4.16 | 3.91 | 3.76# |
| *Eastern Africa* | 6.28 | 6.56 | 5.36 | 5.56 | 5.31 | 5.1 | 4.7# |
| *Southern Africa* | 2.82 | 2.64 | 2.73 | 2.63 | 3.5 | 3.15 | 2.13# |
| *South Africa* | 2.66 | 2.46 | 2.49 | 2.29 | 3.41 | 3.13 | 2.09# |

Source: World Urbanization Prospects:2002. # Estimates for years beyond 2002

Annexure (iv): Global Competitiveness Index (out of 131 countries)

| African ranking | Country | Score | World ranking |
|---|---|---|---|
| 1 | Tunisia | 4.59 | 32 |
| 2 | South Africa | 4.42 | 44 |
| 3 | Mauritius | 4.16 | 60 |
| 4 | Morocco | 4.08 | 64 |
| 5 | Botswana | 3.96 | 76 |
| 6 | Egypt | 3.96 | 77 |
| 7 | Algeria | 3.91 | 81 |
| 8 | Libya | 3.85 | 88 |
| 9 | Namibia | 3.85 | 89 |
| 10 | Kenya | 3.61 | 99 |
| 11 | Senegal | 3.61 | 100 |
| 12 | Gambia | 3.59 | 102 |
| 13 | Tanzania | 3.56 | 104 |
| 14 | Benin | 3.49 | 108 |
| 15 | Burkina Faso | 3.43 | 112 |
| 16 | Mali | 3.37 | 115 |
| 17 | Cameroon | 3.37 | 116 |
| 18 | Madagascar | 3.36 | 118 |
| 19 | Uganda | 3.33 | 120 |
| 20 | Zambia | 3.29 | 122 |
| 21 | Ethiopia | 3.28 | 123 |
| 22 | Lesotho | 3.27 | 124 |
| 23 | Mauritania | 3.26 | 125 |
| 24 | Mozambique | 3.02 | 128 |
| 25 | Zimbabwe | 2.88 | 129 |
| 26 | Burundi | 2.84 | 130 |
| 27 | Chad | 2.78 | 131 |

Source: The World Competitive Report, 2007

Annexure (v): GDP (at ppp adjusted) and GDP (at ppp) per capita for the year 2007

| Rank | Country | GDP (Million USD) | GDP (ppp) per capita |
|---|---|---|---|
| 1 | South Africa | 703,709 | 14,529 |
| 2 | Egypt | 423,464 | 5,643 |
| 3 | Algeria | 298,448 | 8,649 |
| 4 | Nigeria | 216,245 | 1,373 |
| 5 | Morocco | 198,785 | 6,406 |
| 6 | Sudan | 129,447 | 3,395 |
| 7 | Tunisia | 107,185 | 10,269 |
| 8 | Ethiopia | 106,602 | 1,346 |
| 9 | Libya | 93,402 | 15,041 |
| 10 | Angola | 91,825 | 5,463 |
| 11 | Ghana | 70,785 | 3,142 |
| 12 | DR Congo | 60,165 | 957 |
| 13 | Uganda | 57,886 | 1,807 |
| 14 | Kenya | 54,653 | 1,550 |
| 15 | Cameroon | 45,777 | 2,362 |
| 16 | Tanzania | 37,031 | 932 |
| 17 | Mozambique | 35,781 | 1,706 |
| 18 | Côte d'Ivoire | 34,155 | 1,795 |
| 19 | Botswana | 28,454 | 18,402 |
| 20 | Zimbabwe | 28,098 | 2,395 |
| 21 | Senegal | 27,435 | 2,192 |
| 22 | Equatorial Guinea | 26,428 | 21,316 |
| 23 | Guinea | 25,650 | 2,530 |
| 24 | Burkina Faso | 22,132 | 1,576 |
| 25 | Madagascar | 21,787 | 1,078 |
| 26 | Namibia | 20,100 | 9,653 |
| 27 | Mali | 19,209 | 1,438 |
| 28 | Mauritius | 19,015 | 14,954 |
| 29 | Chad | 17,861 | 1,896 |
| 30 | Zambia | 15,168 | 1,218 |
| 31 | Rwanda | 15,155 | 1,590 |
| 32 | Niger | 14,485 | 1,052 |
| 33 | Benin | 12,217 | 1,507 |
| 34 | Gabon | 11,726 | 7,985 |
| 35 | Malawi | 10,737 | 786 |
| 36 | Togo | 10,544 | 1,592 |
| 37 | Mauritania | 7,962 | 2,626 |
| 38 | Swaziland | 6,537 | 5,544 |
| 39 | Lesotho | 6,241 | 2,500 |
| 40 | Sierra Leone | 5,991 | 1,018 |
| 41 | Burundi | 5,913 | 744 |
| 42 | Republic of the Congo | 5,774 | 1,582 |
| 43 | Central African Republic | 5,733 | 1,317 |
| 44 | Somalia | 5,575 | 600 |
| 45 | Eritrea | 5,068 | 1,018 |
| 46 | Cape Verde | 4,271 | 8,481 |
| 47 | Gambia | 4,114 | 2,524 |
| 48 | Djibouti | 2,194 | 2,797 |
| 49 | Liberia | 1,498 | 500 |
| 50 | Guinea-Bissau | 1,362 | 787 |
| 51 | Seychelles | 1,921 | 23,294 |
| 51 | Comoros | 1,391 | 2,133 |
| 52 | São Tomé & Príncipe | 616 | 3,708 |
| Source: World Economic Outlook, 2007 | | Total: 3,178,132 | |

Annexure (vi): Human Development indices for African countries

| Country | HDI | Ranking in Africa | World ranking |
|---|---|---|---|
| Seychelles | 0.842 | 1 | 47 |
| Mauritius | 0.8 | 2 | 63 |
| Libya | 0.798 | 3 | 64 |
| Algeria | 0.728 | 4 | 102 |
| Cape Verde | 0.722 | 5 | 106 |
| Egypt | 0.702 | 6 | 111 |
| Equatorial Guinea | 0.653 | 7 | 120 |
| South Africa | 0.653 | 8 | 121 |
| Morocco | 0.64 | 9 | 123 |
| Gabon | 0.633 | 10 | 124 |
| Namibia | 0.626 | 11 | 125 |
| São Tomé and Príncipe | 0.607 | 12 | 127 |
| Botswana | 0.57 | 13 | 131 |
| Comoros | 0.556 | 14 | 132 |
| Ghana | 0.532 | 15 | 136 |
| Republic of the Congo | 0.52 | 16 | 140 |
| Sudan | 0.516 | 17 | 141 |
| Madagascar | 0.509 | 18 | 143 |
| Cameroon | 0.506 | 19 | 144 |
| Uganda | 0.502 | 20 | 145 |
| Swaziland | 0.5 | 21 | 146 |
| Togo | 0.495 | 22 | 147 |
| Djibouti | 0.494 | 23 | 148 |
| Lesotho | 0.494 | 24 | 149 |
| Zimbabwe | 0.491 | 25 | 151 |
| Kenya | 0.491 | 26 | 152 |
| Mauritania | 0.486 | 27 | 153 |
| Gambia | 0.479 | 28 | 155 |
| Senegal | 0.46 | 29 | 156 |
| Eritrea | 0.454 | 30 | 157 |
| Rwanda | 0.45 | 31 | 158 |
| Nigeria | 0.448 | 32 | 159 |
| Guinea | 0.445 | 33 | 160 |
| Angola | 0.439 | 34 | 161 |
| Tanzania | 0.43 | 35 | 162 |
| Benin | 0.428 | 36 | 163 |
| Côte d'Ivoire | 0.421 | 37 | 164 |
| Zambia | 0.407 | 38 | 165 |
| Malawi | 0.4 | 39 | 166 |
| DR Congo | 0.391 | 40 | 167 |
| Mozambique | 0.39 | 41 | 168 |
| Burundi | 0.384 | 42 | 169 |
| Ethiopia | 0.371 | 43 | 170 |
| Chad | 0.368 | 44 | 171 |
| Central African Republic | 0.353 | 45 | 172 |
| Guinea-Bissau | 0.349 | 46 | 173 |
| Burkina Faso | 0.342 | 47 | 174 |
| Mali | 0.338 | 48 | 175 |
| Sierra Leone | 0.335 | 49 | 176 |
| Niger | 0.311 | 50 | 177 |

Source: Human Development Report, UNDP (2005)

Annexure (vii): Corruption perception indices for SSA countries

| Africa Rank (out of 39) | World Rank (out of 158) | Country | CPI Score* | Confidence Range** | Surveys Used*** |
|---|---|---|---|---|---|
| 1 | 32 | Botswana | 5.9 | 5.1 - 6.7 | 8 |
| 2 | 46 | South Africa | 4.5 | 4.2 - 4.8 | 11 |
| 3 | 47 | Namibia | 4.3 | 3.8 - 4.9 | 8 |
| 4 | 51 | Mauritius | 4.2 | 3.4 - 5.0 | 6 |
| 5 | 55 | Seychelles | 4.0 | 3.5 - 4.2 | 3 |
| 6 | 65 | Ghana | 3.5 | 3.2 - 4.0 | 8 |
| 7 | 70 | Burkina Faso | 3.4 | 2.7 - 3.9 | 3 |
| " | " | Lesotho | 3.4 | 2.6 - 3.9 | 3 |
| 9 | 78 | Senegal | 3.2 | 2.8 - 3.6 | 6 |
| 10 | 83 | Rwanda | 3.1 | 2.1 - 4.1 | 3 |
| 11 | 88 | Benin | 2.9 | 2.1 - 4.0 | 5 |
| " | " | Gabon | 2.9 | 2.1 - 3.6 | 4 |
| " | " | Mali | 2.9 | 2.3 - 3.6 | 8 |
| " | " | Tanzania | 2.9 | 2.6 - 3.1 | 8 |
| 15 | 97 | Madagascar | 2.8 | 1.9 - 3.7 | 5 |
| " | " | Malawi | 2.8 | 2.3 - 3.4 | 7 |
| " | " | Mozambique | 2.8 | 2.4 - 3.1 | 8 |
| 18 | 103 | The Gambia | 2.7 | 2.3 - 3.1 | 7 |
| " | " | Swaziland | 2.7 | 2.0 - 3.1 | 3 |
| 20 | 107 | Eritrea | 2.6 | 1.7 - 3.5 | 3 |
| " | " | Zambia | 2.6 | 2.3 - 2.9 | 7 |
| " | " | Zimbabwe | 2.6 | 2.1 - 3.0 | 7 |
| 23 | 117 | Uganda | 2.5 | 2.2 - 2.8 | 8 |
| 24 | 126 | Niger | 2.4 | 2.2 - 2.6 | 4 |
| " | " | Sierra Leone | 2.4 | 2.1 - 2.7 | 3 |
| 26 | 130 | Burundi | 2.3 | 2.1 - 2.5 | 3 |
| " | " | Congo-Brazzaville | 2.3 | 2.1 - 2.6 | 4 |
| 28 | 137 | Cameroon | 2.2 | 2.0 - 2.5 | 6 |
| " | " | Ethiopia | 2.2 | 2.0 - 2.5 | 8 |
| " | " | Liberia | 2.2 | 2.1 - 2.3 | 3 |
| 31 | 144 | Congo-Kinshasa | 2.1 | 1.8 - 2.3 | 4 |
| " | " | Kenya | 2.1 | 1.8 - 2.4 | 8 |
| " | " | Somalia | 2.1 | 1.6 - 2.2 | 3 |
| " | " | Sudan | 2.1 | 1.9 - 2.2 | 5 |
| 35 | 151 | Angola | 2.0 | 1.8 - 2.1 | 5 |
| 36 | 152 | Côte d'Ivoire | 1.9 | 1.7 - 2.1 | 4 |
| " | " | Equatorial Guinea | 1.9 | 1.6 - 2.1 | 4 |
| " | " | Nigeria | 1.9 | 1.7 - 2.0 | 9 |
| 39 | 158 | Chad | 1.7 | 1.3 - 2.1 | 6 |

Source: Transparency International; Internet Centre for Corruption Research. Released 18 October 2005.

Annexure (viii): Rankings of Ease of doing business in Sub Saharan African Countries

| Economy | Ease of Doing Business Rank | Starting a Business | Registering Property | Getting Credit | Protecting Investors | Paying Taxes | Trading Across Borders | Enforcing Contracts |
|---|---|---|---|---|---|---|---|---|
| Mauritius | 1 | 1 | 33 | 10 | 2 | 1 | 1 | 12 |
| South Africa | 2 | 3 | 8 | 2 | 1 | 13 | 20 | 13 |
| Namibia | 3 | 13 | 21 | 4 | 9 | 8 | 26 | 1 |
| Botswana | 4 | 12 | 3 | 2 | 16 | 2 | 27 | 17 |
| Kenya | 5 | 17 | 15 | 1 | 12 | 38 | 30 | 19 |
| Ghana | 6 | 24 | 1 | 15 | 3 | 15 | 3 | 4 |
| Seychelles | 7 | 2 | 4 | 39 | 5 | 5 | 6 | 8 |
| Swaziland | 8 | 27 | 27 | 4 | 46 | 6 | 28 | 25 |
| Ethiopia | 9 | 15 | 29 | 10 | 16 | 3 | 31 | 11 |
| Nigeria | 10 | 6 | 46 | 7 | 5 | 21 | 22 | 16 |
| Zambia | 11 | 7 | 18 | 10 | 9 | 4 | 36 | 14 |
| Uganda | 12 | 18 | 38 | 39 | 20 | 11 | 24 | 22 |
| Lesotho | 13 | 21 | 22 | 15 | 30 | 9 | 16 | 18 |
| Malawi | 14 | 16 | 11 | 7 | 9 | 16 | 37 | 27 |
| Tanzania | 15 | 10 | 37 | 15 | 12 | 20 | 9 | 2 |
| Gambia | 16 | 9 | 23 | 27 | 43 | 44 | 4 | 7 |
| Cape Verde | 17 | 36 | 20 | 6 | 20 | 25 | 2 | 6 |
| Mozambique | 18 | 20 | 19 | 10 | 3 | 14 | 23 | 29 |
| Sudan | 19 | 10 | 2 | 27 | 30 | 12 | 25 | 31 |
| Gabon | 20 | 31 | 30 | 15 | 34 | 18 | 11 | 32 |
| Comoros | 21 | 29 | 10 | 39 | 20 | 7 | 13 | 36 |
| Madagascar | 22 | 4 | 40 | 46 | 5 | 17 | 15 | 35 |
| Rwanda | 23 | 5 | 25 | 39 | 43 | 10 | 41 | 3 |
| Benin | 24 | 23 | 14 | 15 | 34 | 39 | 14 | 41 |
| Zimbabwe | 25 | 28 | 9 | 10 | 16 | 33 | 43 | 10 |
| Cameroon | 26 | 38 | 24 | 15 | 16 | 42 | 18 | 44 |
| Côte d'Ivoire | 27 | 35 | 33 | 27 | 34 | 32 | 29 | 23 |
| Togo | 28 | 44 | 31 | 27 | 27 | 31 | 5 | 37 |
| Mauritania | 29 | 39 | 5 | 15 | 30 | 43 | 32 | 15 |
| Mali | 30 | 32 | 12 | 27 | 34 | 36 | 38 | 39 |
| Sierra Leone | 31 | 8 | 45 | 15 | 14 | 34 | 17 | 30 |
| Burkina Faso | 32 | 14 | 44 | 15 | 27 | 29 | 44 | 20 |
| Senegal | 33 | 37 | 35 | 27 | 42 | 41 | 21 | 33 |
| São Tomé | 34 | 21 | 28 | 15 | 20 | 37 | 7 | 21 |
| Eq. Guinea | 35 | 41 | 6 | 27 | 30 | 30 | 19 | 9 |
| Guinea | 36 | 40 | 32 | 27 | 43 | 40 | 10 | 24 |
| Angola | 37 | 42 | 41 | 7 | 5 | 27 | 40 | 46 |
| Niger | 38 | 33 | 7 | 27 | 34 | 24 | 39 | 26 |
| Liberia | 39 | 26 | 42 | 27 | 27 | 26 | 8 | 40 |
| Eritrea | 40 | 43 | 36 | 39 | 14 | 19 | 35 | 5 |
| Chad | 41 | 45 | 17 | 27 | 20 | 28 | 34 | 42 |
| Burundi | 42 | 19 | 16 | 45 | 34 | 22 | 42 | 33 |
| Congo, Rep. | 43 | 34 | 43 | 15 | 34 | 46 | 45 | 38 |
| Guinea-Bissau | 44 | 46 | 39 | 27 | 20 | 23 | 12 | 28 |
| CAR | 45 | 25 | 13 | 15 | 20 | 45 | 46 | 43 |
| DR Congo, | 46 | 30 | 26 | 39 | 34 | 35 | 33 | 45 |

Source: The World Bank Group, 2007

Regoverning Markets

**Regoverning Markets is a multi-partner collaborative research programme analysing the growing concentration in the processing and retail sectors of national and regional agrifood systems and its impacts on rural livelihoods and communities in middle- and low-income countries. The aim of the programme is to provide strategic advice and guidance to the public sector, agrifood chain actors, civil society organizations and development agencies on approaches that can anticipate and manage the impacts of the dynamic changes in local and regional markets. The programme is funded by the UK Department for International Development (DFID), the International Development Research Centre (IDRC), ICCO, Cordaid, the Canadian International Development Agency (CIDA), and the US Agency for International Development (USAID).**

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