

Note on

**External Constraints to Agricultural Development in Sub-Saharan
Africa**

Prepared for the
OECD Global Forum on Agriculture
Paris, 16-17 May 2006

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External Constraints to Agricultural Development in Sub-Saharan Africa

Agriculture is critically important to African economies: The agricultural sector lies at the centre of most African economies. It accounts for more than a third of Gross Domestic Product (GDP), employs nearly 70 per cent of the labor force, represents a major source of foreign exchange, supplies the bulk of basic food and provides subsistence and income for large rural populations. Thus, significant progress in promoting economic growth, reducing poverty and enhancing food security cannot be achieved in most of these countries without developing more fully the potential productive capacity of the agricultural sector and its contribution to overall economic development.

Several factors have contributed, in varying degrees, to the underdevelopment of agriculture in most of the developing countries. Key challenges include the following:

- i. *On the internal front*, the past policy bias against agriculture in these countries along with other *political constraints* (including armed conflicts); physical constraints (including irregular weather patterns - drought, floods -, poorly developed infrastructure, isolation of agricultural regions; *social constraints* (including low levels of literacy and schooling, insufficient access to safe water for humans and livestock, low access to health care facilities; spread of malaria and HIV/AIDS; *technical constraints* (including the low generation and application of appropriate technologies); and *financial constraints* (including large external debts, low level of domestic savings, low public budgetary allocations to agriculture);

- i. *On the external front*, extensive subsidies and border protection in many developed countries continue to block opportunities for those poor people who can best make their livings from farming and value-added farm products.

While progress has been made on both fronts in recent years, much remains to be done. The rest of this paper will focus on the external constraints to agricultural development; that is, the high levels of subsidies and border protection provided to agriculture in the developed world, which remains a serious problem.

Support policies and border protection of the wealthy OECD countries, worth hundreds of billions of dollars each year, cause harm to agriculture in Sub-Saharan Africa. These policies include price guarantees, income support measures, and input-related subsidies that stimulate farm production. They also include tariffs and tariff-rate quotas (TRQs) that restrict market access and export subsidies that move high-priced farm products into world markets.

Domestic support: domestic support to agriculture encourages over-production which in turn increases supplies on world markets (by reducing import demand or increasing export supply) and depresses world prices. Low prices make it harder for producers in Sub-Saharan Africa to compete in their home markets as well as in international markets thus reducing incentives for production and retarding the development of their agricultural sector.

Market access: Empirical evidence attributes the bulk of expanded agricultural trade and income gains to removal of tariffs and TRQs that block market access and keep domestic prices higher than world levels. Indeed, recent empirical research illustrates the impacts of these policies. By blocking market access and driving down world prices for agricultural commodities, developed country policies reduce agricultural exports from the developing world by \$37 billion (25%) annually. Agricultural GDP among developing countries is reduced by \$23 billion annually. For specific countries and specific commodities, the effects can be critical, as in the case of cotton for the rural poor in a number of African countries.

Export subsidies: Export subsidies further distort global markets and often destabilize world prices as developed countries tend to use subsidies more when world prices are low, thus further depressing prices. Developing countries thus have an interest in the reduction of export subsidies in the developed countries.

Export subsidies have cost over \$5 billion in recent years, 90% of which is by the European Union. Further, the indirect forms of export subsidization, through credit discounts and guarantees, and discriminatory pricing policies by state trading enterprises also need to be ended. Eliminating direct and indirect export subsidies would send a strong signal of multilateral commitment to imposing new disciplines on agricultural trade distortions.

Safety and quality regulations: The fastest growing world agricultural markets for developing countries are for fruits and vegetables, livestock products and other high-value commodities. Fruits and vegetables alone now account for nearly 20% of developing country agricultural exports. For these high-value products, regulations and standards related to safety and quality play a large role in determining trade opportunities, thus must not be used as protectionist instruments.

Looking ahead: From the above, it appears that a fair and equitable agricultural trade is of paramount importance for African economies. Thus, it is imperative that for the current round of multilateral trade negotiations on agriculture to produce further liberalization of world agricultural markets, concerted efforts will be required from all WTO members to deal effectively with the above thorny issues which distort these markets.