

α

**IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT**

**COHERENCE OF INTERNATIONAL TRADE LIBERALISATION POLICY WITH THE
OBJECTIVES OF RURAL POVERTY REDUCTION:
LISTENING TO THE VIEWS OF THE RURAL PEOPLE IN SUB-SAHARIAN AFRICA**

Romano Pantanali, Mohamed Manssouri and Mohamed Béavogui

12-13 NOVEMBER 2007

**Coherence of international trade liberalization policy
with the objectives of rural poverty reduction:
listening to the views of the rural people in Sub-Saharan Africa**

TABLE OF CONTENTS

Abstract

Foreword

I. The MDGs and the current situation in SSA: the gaps are not closing fast enough

II. OECD countries' contribution to reaching the MDGs in SSA

III. At the root of slow progress: state and market failures, incoherent policies

IV. Eight key issues in policy coherence

- Policy coherence issue no. 1: geographical distribution of ODA
- Policy coherence issue no. 2: sector-wise distribution of ODA expenditure
- Policy coherence issue no. 3: trade liberalization and agricultural development in SSA
 - Key facts
 - Recent experiences of agricultural producers
 - Scope of diversification of agricultural exports from SSA
- Policy coherence issue no. 4: protection of domestic agriculture in the industrialized countries
 - The July Agreement
- Policy coherence issue no 5: system of incentives confronting agricultural producers in SSA
- Policy coherence issue no. 6: international trade policies of SSA governments
- Policy coherence issue no. 7: pace of regional economic integration and towards a common regional agricultural development policy
- Policy coherence issue no. 8: how enabling is the environment for developing strong institutions at grassroots level?

V. A final word: the political dimension

Abstract

The gap between the Millennium Development Goals (MDGs) set for 2015 and the present situation in Sub-Saharan Africa (SSA) is not closing fast enough, despite the positive aggregate economic performance of the last six to seven years. Favourable aggregate results tend to sideline important differences from one country to another, and within countries between one sector and another. Agriculture in SSA has been hit by the serious international market crises that befell the major export crops of the sub-continent: coffee, tea, cocoa and cotton. Setbacks in the agricultural sector have a severe impact on poverty in SSA, since 70 percent of the sub-continent's poor people draw their livelihood from agriculture.

The disappointing performance of agricultural production is attributed to a complex set of state and market failures that constrain the potential for development in rural areas and, subsequently, the chances of poor rural people to lift themselves out of poverty. Lack of coherence between different policy objectives, and between policy objectives and policy implementation practices, enhances state and markets failures in SSA. Eight issues in policy coherence are discussed in this paper. Four issues concern the governments of industrialized countries and four concern the governments of SSA countries.

The issues regarding the governments of industrialized countries include: (i) the total amount of Official Development Assistance (ODA) disbursed to SSA; (ii) the distribution of ODA expenditure by sector; (iii) the expected impact of trade liberalization in light of the actual experience of SSA; and (iv) the impact of the domestic protection of domestic agriculture in industrialized countries. The issues regarding the governments of SSA countries include: (i) the coherence of the system of incentives confronting agricultural producers, with the objective of encouraging fast development of the agricultural sector; (ii) the coherence of the international trade policy of SSA governments, with the objective of promoting an expanding and remunerative market for African farmers; (iii) the coherence between the pace at which SSA governments pursue regional economic integration objectives and the formulation of common regional agricultural development policies with the need to develop capacity for fast reactions to the challenges of globalization of international markets; and (iv) the coherence of the institutional development currently promoted in SSA with the establishment of an enabling environment of grass-root institutions that encourages the emergence of new leaderships and strong producers' and community organizations.

The ODA received by SSA in 2003 was about the same as in 1993 in nominal terms, with the agricultural sector receiving a much smaller share than ten years before. After Monterrey the OECD countries promised large increases in the total amount of ODA to developing countries, with half of the increase to be added to the present share of SSA beginning in 2006. The Doha development programme of 2001 emphasizes the importance of agriculture for poverty reduction in Africa, but progress in negotiating implementation has been very slow. Little agreement has actually been reached on concrete measures to disentangle critical international trade policy issues affecting African agricultural development.

Reaching the MDGs by 2015 in SSA requires urgent major corrections to policy incoherence, with a view to making a real impact on rural poverty by a significant acceleration of agricultural development. In addition to more resources and non-contradictory policies, agricultural development requires expanding markets, remunerative prices for agricultural producers and competition among equal trading partners. Faster integration of the African regional economies, common regional agricultural development policies focused on rural poverty reduction, and appropriate protection against unfair competition from outside the common markets would strengthen the technical and financial basis of SSA agriculture. The establishment of enabling institutions at grassroots level would encourage the emergence of strong producers' and community-based organizations, improve local governance and

mobilize the energies and consensus required to react positively to the incentives provided to increase agricultural production and productivity.

The paper ends with five considerations related to the political dimension of the agricultural and rural poverty reduction challenges in SSA.

Foreword

This paper elaborates on formal and informal communications with those engaged in the implementation of IFAD projects at rural community level in Sub-Saharan Africa (SSA). They include central and local government officers, representatives of farmers' organizations, development analysts and non-governmental organization (NGO) field workers. The paper attempts to convey the perceptions expressed by the rural communities about important matters that directly affect their own livelihoods as well as their chances to rise out of poverty on a sustainable basis.

I. The Millennium Development Goals and Sub-Saharan Africa: the gaps are not closing fast enough

1. Three Millennium Development Goals (MDGs) directly involve the linkages between agricultural development policy and international trade policy: (i) halving the number of rural people living in extreme monetary poverty; (ii) halving malnutrition; and (iii) improved governance in rural areas. There has been wide agreement in the international community on the need for these objectives to be achieved by 2015. What progress is being made in SSA? And what are the perceptions of poor rural people about the coherence of the declared policy intentions of their governments and the actual system of incentives at their disposal in their efforts to lift themselves out of poverty through agricultural means?

2. From 1996 to 2002 in SSA, the average rate of growth of Gross Domestic Product was 3.8 percent. In 2003 and 2004, growth accelerated, with some countries in West Africa growing at more than 5 percent per annum¹. The positive performance was the result of a number of factors: the economic policy reforms carried out during the 1990s; the abatement of a number of serious civil disturbances; and the impact of high international market prices of some key SSA exports (e.g. oil and metals), which offset the serious drop in the international market price of agricultural primary commodities (coffee and tea in the late 90s, followed by cotton and cocoa in the early 2000s). However, the strong aggregate economic performance of SSA should not detract from the considerable variations from one country to another² and, within countries, from one sector to another. Such variations are highly relevant with respect to the chances that the MDGs are achieved in SSA without an excessive delay.

3. In fact, the Organisation for Economic Co-operation and Development (OECD) estimates³ that only several countries in SSA are likely to achieve the MDGs by 2015. Only 10 out of 47 countries (21 percent) are performing satisfactorily towards the objective of halving extreme monetary poverty and hunger. For the remaining 79 percent, the economic growth that would be required to halve the number of people living on less than USD 1 per day is far beyond what can be reasonably projected. In addition, the development policies in those countries do not seem adequately geared to addressing the problems of the agricultural

¹ OECD, Perspectives économiques en Afrique, 2004/2005

² Half of SSA countries recorded near-zero growth rate between 1990 and 2002: FAO The State of Food Insecurity in the World 2003-2004

³ OECD, Perspectives ..., 2004/2005

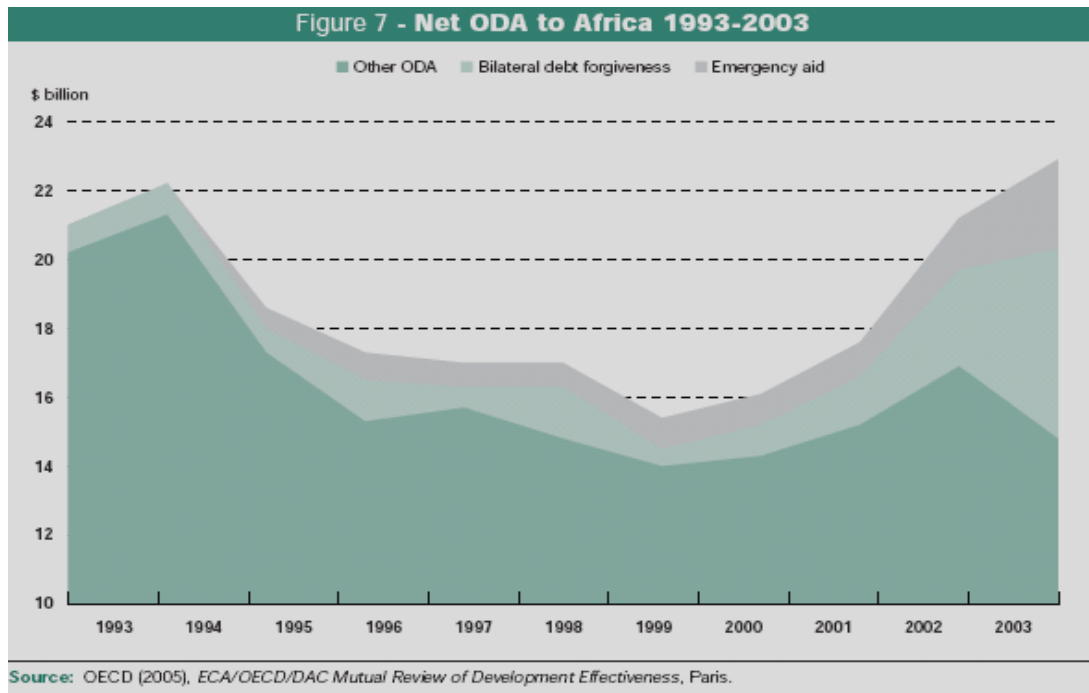
sector, from which the largest share of poor African people struggle to earn their livelihood. Those who live on USD 1 per day in SSA are estimated to number 230 million in SSA. More than 70 percent of them live in rural areas and draw their livelihood from agriculture. These figures show little sign of decreasing, what with agricultural gross national product (GNP) not growing fast enough in most countries, and actually declining in some cases due to the impact of falling international market prices of primary agricultural commodities.

4. From 1995/97 to 2000/2002, undernourishment increased 3 percent in Central Africa, but decreased 1 percent in West Africa and 5 percent in Southern Africa. Overall in SSA, one third of the population is still undernourished, and 27 percent of the children are underweight. Food security vulnerability increased, signaled by the large increase in the importation cereals (up 60 during the same period) compared to that of the rest of the world (up only 18 percent).

5. With respect to the issue of governance in SSA, progress has been made in the overall development of democratic institutions at national and provincial/district levels. Reform of public administration carried out in many countries has strengthened local governments to a considerable extent, although generating additional burdens on overstretched public finances. Nevertheless, there is considerable additional ground to be covered to develop an effective linkage between “government” and the rural people, and to create a path towards truly pluralistic governance in rural areas. Rural people point out that the emphasis on the district/municipality level in the public administration reform has not yet developed adequate instruments for the “voice of the village” to be heard, and to be listened to. This is particularly true when it comes to decisions about the use of public funds in matters that directly concern livelihoods of rural communities. Farmers’ organizations are emerging and growing stronger, but much remains to be done to establish genuine enabling institutions at that level.

II. OECD countries’ contribution to reaching the Millennium Development Goals in Sub-Saharan Africa

6. In 2003, the total net Official Development Assistance (ODA) of the OECD countries to SSA was USD 21 billion, about the same level in current prices as ten years before. From 1995 to 2000, there was a significant reduction in aid flow, with the lowest ODA in 1999 of less than USD 16 billion. The reduction was combined with a gradually growing share of debt relief and of emergency aid towards the end of the period. The share of SSA in the total ODA (USD 69 billion) stood at a little over 30 percent in 2003, of which almost one third was emergency assistance and debt relief combined (approximately in the ratio of one to two thirds, respectively). If emergency aid is excluded, the ODA disbursed in 2003 to SSA was equivalent to less than USD 90 per person living in conditions of extreme poverty. The following graph, taken from the OECD/African Development Bank (AfDB) 2005 report “Economic Perspective in Africa”, includes the ODA disbursed to all African countries, the great majority of which was to SSA.



7. Between 1993 and 2003, debt relief resulted in a change of the structure of the ODA, but not in an increased flow of resources to SSA. This presumably increased the degree of freedom SSA governments had in using those resources no longer directly allocated to specific development programmes. It may or may not result in more investment for agriculture and rural poverty reduction, depending on the pressure of recurrent expenditure on the total resources available to finance government budgets.

8. The ODA disbursed by the OECD countries in SSA was clearly insufficient to help generate the kind of economic growth with equity required to get on the right track to reaching the MDGs by 2015⁴. Following the Monterrey and Kananaskis meetings of the G8, OECD countries committed themselves to increasing their total annual ODA, including debt service, from USD 69 billion to USD 88 billion in 2006, and to USD 100 billion in 2010, and to allocate half of the larger flow to SSA. The commitment for the future looks somewhat brighter, although even a flow of USD 50 billion per year to SSA would still represent a marginal increase in real terms with respect to the inflow of aid in the very early 1990s.

9. Among the representatives of the rural people of SSA, there is a certain amount of skepticism as to whether the promises made at Monterrey, Kananaskis, Doha, Cancun and after will actually be kept – and when. The situation should become clearer at the Hong Kong meeting scheduled for December 2005. Even if the basic promise on the total aid disbursement and on the African share were actually fulfilled, and in the time proposed, there is recognition that it is not enough to reach the MDGs by 2015. There is a growing feeling that African people must increasingly find a solution to their poverty-reduction problems by relying more on themselves than on external assistance. At the same time, there is awareness that ODA from the OECD countries will remain a key engine of development in SSA for quite some time.

⁴ The “Zerillo Report”, UN, 2001 estimates total ODA requirements to reach the MDGs by 2015 at about USD 120 billion annually in 2006.

III. At the root of slow progress: state and market failures, incoherent policies

10. The reasons for the slow progress towards the MDGs in SSA are obviously complex and vary from country to country. The African perception, however, goes beyond inadequate external investment resources. Of paramount importance is a combination of two conditions: the failure of the states to set in motion a sustainable process of agricultural development; and the failure of the market to provide efficient allocation of resources with equal opportunities and benefits for all trading partners. State failures have affected both the governments of the OECD countries in addressing the agricultural development process in SSA, and the very governments of the countries of SSA. It is the latter who are ultimately responsible for developing the economic sector where the largest impact on poverty reduction can be achieved.

11. Government failures are to a large extent the result of incoherence in the policies they apply in different areas of public spending. This incoherence produces contradictory rather than mutually enhancing effects. Market failures are the result of the asymmetric distribution of opportunities, including access to information, assets and external economies. This asymmetric distribution is often enhanced by incoherence among governments' policy objectives and the policies actually pursued.

IV. Eight issues of policy coherence

12. In SSA, rural people perceive a number of important areas where lack of policy coherence directly affects their livelihood and diminishes to opportunities for the poorer segments of the rural population to rise out of their poverty. This paper addresses eight issues that were highlighted on several occasions. Of these, four policy coherence issues concern the governments of the OECD countries, and four concern the governments of the SSA countries.

13. Since most of the poor in SSA are rural people who depend on agriculture, the four issues that concern the policies of governments of OECD countries are best presented in the form of the following questions:

- *Is the country allocation of the ODA funded by OECD countries coherent with the objective of reaching the MDGs in SSA?*
- *Is the structure, by sector, of expenditure of ODA in SSA coherent with the objective of developing agriculture?*
- *Is the liberalization of international markets advocated by OECD countries for SSA coherent with the objective of activating fast agricultural development in SSA?*
- *Is the protection of domestic agriculture in developed countries coherent with the poverty-reduction objectives of their own ODA?*

14. The questions related to the four issues that concern the policies of governments of SSA countries are:

- *Is the system of incentives that confronts agricultural producers in SSA coherent with the objective of fast growth and equity in the agricultural sector?*
- *Are the international trade policies of SSA governments coherent with their objectives of agricultural development and rural poverty reduction?*
- *Is the pace at which SSA governments pursue regional economic integration and their approach towards a common regional agricultural development policy coherent with the objective of accelerating the growth of agriculture?*
- *Are the institutional transformations currently pursued in SSA coherent with the need to develop strong grassroots institutions?*

Policy coherence issue no. 1: geographical distribution of ODA

15. A guiding principle of ODA allocation by country is that priority should be given to countries that have large number of poor people and are also capable of effectively using external resources. This approach generates a bias in favour of large developing countries such as India and China that combine a great number of people who live below the poverty line with proven capacity to use resources quite effectively. For the industrialized countries, a concentration of ODA in middle-income countries has the added advantage of stimulating the growth of economies that represent attractive and rapidly expanding markets for their products.

16. This guiding principle has not been strictly followed by all donor governments. Equity demands that the poorest countries, which are often also the weakest states, be supported to an even larger extent than middle-income countries precisely because of their poor capacity to mobilize domestic resources and to use technical and financial assistance as effectively as the middle-income countries.

17. To what extent is the current actual allocation by country coherent with the objective of reaching the MDGs in SSA? Recent research by the Institute of Development Studies of the University of Sussex⁵ analysed the distribution of ODA with respect to four MDG indicators: extreme poverty, child malnutrition, children not in school, and under-five mortality. Aid concentration curves were constructed for the total ODA disbursed in 2003 by all OECD countries, and by the major donors individually.

18. The research shows that all major donors distribute their ODA giving higher priority to reducing extreme poverty and lowest priority to reducing under-five mortality. It also shows that, whereas the World Bank, the UN and the UK concentrate their concessionary assistance in the poorest countries (negative Suits indices, see Table 1), the US and the EU “spend the majority of their aid budgets in middle-income countries, which have already met, or are “on track” to meet, the MDGs.” France, Germany and Japan spend less than half of their ODA in the poorest countries, “with large poor countries (such as India and Nigeria) receiving much less aid than some former colonies.”

Donor (in descending order of ODA disbursed)	MDGs			
	Extreme poverty	Child malnutrition	Children not in school	Under-five mortality
USA	0.364	0.416	0.414	0.457
Japan	0.217	0.298	0.319	0.370
EU	0.303	0.346	0.359	0.370
World Bank	-0.371	-0.308	-0.210	-0.176
France	0.180	0.254	0.237	0.290
Germany	0.152	0.212	0.233	0.275
UN	-0.314	-0.257	-0.172	-0.138
UK	-0.314	-0.257	-0.172	-0.138
Total DAC	0.123	0.187	0.210	0.254

Source: B. Baulch, 2004

19. The Baulch study is based on data from 73 developing countries and does not specifically construct aid concentration curves for SSA. However, since most of the poorest countries in the series are in SSA, the conclusions of the study mostly concern the sub-

⁵ Bob Baulch, Aid Distribution and the MDGs, CPRC Working Paper, November 2004

continent. The study draws attention to the fact that some important donors are not distributing their ODA in a way that is coherent with the MDGs they are committed to help reaching by 2015. If the inconsistencies are not addressed, the paper concludes, it is likely that even the promised big push in the level of ODA disbursement will fall short of reaching the target.

20. After Monterrey and Kananaskis, more ODA to SSA is now an official policy of the OECD countries. This shift may correct the inconsistencies in the major donors' country allocation of aid to development. Encouraging commitments have already been made by some industrialized countries towards the interim target of USD 88 billion by 2006, including significant debt relief. Whether the increase and the adjustment in the share of SSA will actually take place in full and in the time scheduled, and whether the larger share of aid pledged to Africa will be disbursed in time to have an impact, remains to be seen.

Policy coherence issue no. 2: sector-wide distribution of ODA expenditure

21. The structure of ODA expenditure by sector is an issue that directly affects the interests of rural people in Africa. Research undertaken by African farmers' organizations shows that the ODA allocated to agriculture in SSA fell from 14 to 16 percent of the total flow in 1990 to about 4 percent in 2000⁶. In absolute terms, the decline was more severe due to the reduction of ODA to SSA during the 1990s. Given the share of poor people that draw their livelihood from agriculture, the question is legitimately raised as to whether the decline of ODA expenditure in agriculture is coherent with the declared policy objective of reaching the MDGs in SSA.

22. Furthermore, whereas the erosion of the real value of the ODA due to inflation was probably offset by the appreciation of the USD in the 1990s, the opposite occurred after the USD started to depreciate in 2002. Countries in SSA with their currency linked to the Euro have been seriously affected.

23. It is important to highlight that the drastic reduction of ODA expenditure in agriculture followed large structural adjustments already undertaken in developing countries during the 1980s. Since ODA determines to a very large extent all African governments' development expenditure, the entire public expenditure in agriculture was affected. The evolution was the result of a deliberate policy, shared by donors and receiving governments alike, to scale down the agricultural development service delivery system built after Independence, largely with the help of the international community. In the process, many government organizations that provided African farmers with key services such as extension, research, credit, input distribution and marketing support were liquidated or significantly reduced in size and resources.

24. The drastic scaling down of the public sector was justified on grounds of efficiency, effectiveness and sustainability of the public expenditure incurred, considerations that were, and still are, widely accepted. However, the policy for the reconstruction on a different basis of the service delivery and infrastructure system in agriculture, formulated in the early and middle 1990s, has not been implemented forcefully enough. These factors, combined with unfavourable events in the international market of primary agricultural commodities, have seriously handicapped the chances of sustained agricultural development in most of SSA, and with it the scope for rural poverty reduction.

Policy coherence issue no. 3: trade liberalization and agricultural development in SSA

⁶ Mamadou Cissokho et Jacques Berthelet. Cohérence des Politiques de Développement. Questions pour l'Agriculture Africaine, draft paper 2005

25. The Doha Development Programme (DDP), launched at the closing of 2001, aimed to promote accelerated economic growth in developing countries through increased opportunities resulting from trade liberalization. Negotiations on the DDP dragged on for about three years, going through a setback at Cancun until some agreement was reached in mid-2004. A major stumbling block concerned Africa and SSA agriculture.

26. A key policy coherence issue is to what extent and under what conditions trade liberalization policy would really contribute, in the short and long term, to the growth of African agriculture. A quick look at some basic facts and at the recent experience of agricultural producers in SSA casts some light in this matter.

Key facts

27. Three key factual considerations are in order. The first consideration is that SSA countries are very open economies indeed, as indicated in the following summary table. This suggests that African governments can do little to further increase the share of international trade on the national economies.

Average of SSA countries	53%
World average	42%
Average in the Middle East and North Africa	50%
USA and Japan	20%
France	44%
Source ⁷	

28. The second consideration is that a major share of the trade of SSA is with countries of the EU. Most countries of SSA have had free access to these countries since the mid-1990s, and on a non-reciprocal basis, by virtue of unilateral concessions made by the EU within the framework of the Lomé Agreement. Under the circumstances, the expected beneficial effects of trade liberalization should have already begun to emerge.

29. The third consideration is that, despite liberalization, the share of SSA in the world market declined from 2 percent in 1990 to 1.6 percent in 2000, and there was no appreciable growth of export earnings from 1998 to 2002, except in the oil- and metal-exporting countries⁸. On the other side of the trade balance, significant increases of food imports have been recorded, with import of cereals, for example, growing at a rate three times higher than in the rest of the world.

Recent experiences of agricultural producers

30. Trade liberalization is historically associated with falling prices of agricultural primary commodities. In SSA the most affected commodities are coffee, tea, cocoa, sugar and cotton, commodities that make up the bulk of the export earning potential of many countries that are among the poorest in the world. Since the mid-1990s, a series of international market crises have affected those commodities: coffee and tea markets plunged during the last years of the 90s, cotton and cocoa in the first years of the new century.

⁷ Documents presented to the 2005 Forum organized in Ouagadougou by Réunion des organisations Paysannes des Pays de l'Afrique de l'Ouest (ROPPA)

⁸ OECD, 2005, shows that about half of the countries in SSA actually recorded negative growth of export earnings during that period

31. After the collapse of the International Coffee Agreement (ICA), the world market price of coffee declined sharply. From a range of 110 to 160 USD cents per lb. during the 1980s, prices fell to between 50 and 85 USD cents per lb. during 1990-1994. Thereafter, a series of sharp fluctuations around a steep downward trend began, which brought the price in the early 2000s at the lowest level ever recorded, and the current inter-annual price volatility rate at 50 percent, compared to 10 or 15 percent during the time of ICA regulatory clauses.

32. What was the impact in industrialized countries? The margins between the price paid to exporters in developing countries and the price paid by consumers in the importing countries increased very significantly, with consumers in industrialized countries enjoying no benefit of the drastic reduction of the remuneration of producers in developing countries. Trading companies and roasters accumulated large profits, despite the significant increase in the cost of retail marketing. The hard facts are summarized in Table 3 below. Low-income countries with little diversification of export earnings were particularly hit, and this includes a number of SSA least-developed countries (LDCS). Smallholder coffee farmers lost a significant share of their cash earnings, having no flexibility to grow other crops, and losing forever their investment in coffee trees. It is no that the coffee situation is viewed in rural Africa as an example of the negative impact of liberalization and globalization on the economies of poor countries.

	Early 1980 (ICA enforced)	Early 2000 (unregulated market)
Retail value of coffee sales in developed countries, USD billion	30	55
Coffee export earnings	10	8
Share of exporting countries, %	33	14.5

Source: IFAD. Rwanda. Appraisal of cash crop development project, 2003. Elaboration of ICO data.

33. Whereas the impact of falling international market prices of agricultural commodities on the balance of payments of the exporting countries is well appreciated and well researched, the impact on poverty in the exporting countries is much less known. Recently it has been the objective of some interesting case studies. One such study concerns the cotton sector. Between January and May 2002 the international market price fell by 40 percent, reaching a level that was half the nominal price of the mid-1990s. The subsequent impact on poverty is well represented by the case of cotton growers in Benin.

34. In Benin, as in other African countries, cotton is a smallholder crop that is grown more by the less wealthy segments of the rural population. Before the recent price fall, the income of 37 percent of the cotton growers in Benin was below the poverty line. For these households, cotton is the major, if not the only, source of cash income. A recent World Bank study⁹ shows that the 40 percent fall in the international market price of cotton lint was associated with a 20 percent reduction of growers' seed cotton prices, which in the short term raised the incidence of poverty among cotton growers from 37 to 59 percent. Taking indirect effects into account, the incidence of poverty among all Benin farmers – cotton growers and non-cotton growers – increased from 40 to 48 percent. The long-term impact, taking into account the adjustments of the farming practices that are likely to intervene, is only marginally different. The data are summarized in Table 4 below.

⁹ N. Minot and L. Daniels: Impact of Global Cotton Markets on Rural Poverty in Benin, Washington D.C., 2002

Table 4. Impact of the fall of the international market price of cotton on rural poverty in Benin	
Change in the international market price of cotton lint	-40%
Impact on the domestic price of seed cotton in Benin	-20%
Short-term impact in Benin:	
Percent of cotton growers below the poverty line:	
- before the price change	37%
- after the price change	59%
Increase in the number of farmers (cotton growers and non-cotton growers) below the poverty line	From 40% to 48%
Long term impact (after expected adjustments in the cropping patterns of cotton growers)	
- percent of poor among cotton growers	47%
-percent of poor among all farmers	46%

35. Similar conclusions were reached by similar investigations in other cotton-producing countries of SSA.

Scope for diversification of agricultural exports from SSA

36. The potential offered by the EU preferential treatment of SSA for developing exports of non-conventional agricultural products is often mentioned as a benefit of free trade that may be underestimated. For many years, considerable attention has been paid to such opportunities by international financial institutions, bilateral cooperation agencies, and by a number of NGOs and private entrepreneurs from the developed world. Two strategic prongs have been applied. One consists in supporting the production and export of products that are either new for the European markets (e.g. tropical fruit) or supplied in competition with European producers, filling seasonal gaps in European supplies (e.g. finger beans). The other prong consists in the exploitation of market niches such as those of very high quality specialty products by the Fair Trade Network. The certification of the organic origin of agricultural products must also be mentioned, although this has been applied much more by large-scale producers (e.g. banana plantations) than on smallholders' crops because of the current high cost of market-accepted certification.

37. A number of successful export diversification projects have indeed been implemented in Africa over the years. They cover a wide variety of products, ranging from cut flowers to cassava chips, and from finger beans to gooseberry. The emerging opportunities are of considerable interest in themselves and deserve to be strongly supported, but the size of the operations, and their future prospects, is still marginal compared with the gap in resources generated by worsening terms of trade for the traditional exports. Furthermore, the "success stories" have proven difficult to replicate. For example, the Kenya finger beans story, surely the most successful example of African export diversification in recent times, is proving hard to replicate in areas that are less well served by the rural infrastructure and international air transport network. This has been demonstrated by the difficulties that similar programmes in Ethiopia and in the countries of the Sahel are still facing, after years of external support, and despite the high level of entrepreneurship and horticultural skill that the local farmers possess.

38. Fair Trade organizations, on the other hand, deal with traditional export crops such as coffee, tea, bananas, sugar, etc. They tap the opportunities emerging through the diversification, in affluent societies, of consumer demand for high-quality products. They also help assure that the corresponding extra trading margins are paid to producers and used for development purposes by producers' communities. In the case of coffee, for example, the Fair Trade Network manages to pay prices twice as high as those offered by other traders for the

share of high-quality products of the smallholder cooperatives it sponsors in Latin America, Asia and Africa. It also helps the cooperatives to sell their lower-quality output better by providing market information, quality certification and negotiation assistance. The impact of these initiatives at village level is very encouraging, but the size of the high-quality retail market controlled by the Fair Trade Network is a tiny fraction of the total world coffee market, and this is not likely to significantly change for a long time.

Policy coherence issue no. 4: protection of domestic agriculture in the industrialized countries

39. It is estimated that the protection of agriculture by the OECD countries costs the developing world between USD 5 billion and 10 billion per annum¹⁰. Analysts suggest¹¹ that even if OECD protection were significantly reduced, in a scenario of full-trade liberalization the benefits for the LDCs would be marginal. Moreover, LDCs would actually lose out in the short and medium term due to supply inelasticity in their own production systems, and from the application of reciprocity in preferential market access.

40. In SSA the medium-term supply inelasticity argument is contradicted by a fair amount of experience accumulated over the years, which provides evidence of the quick reaction of African farmers to remunerative prices. However, farm-gate prices in Africa are closely influenced by the “protection” of domestic agriculture in most OECD countries, the US, the EU and Japan. The perception of the rural people in SSA is that the complete removal of this protection is unlikely, since industrialized countries will always want to maintain a minimum of strategic production in agriculture to securing their “food sovereignty”, so to speak. Nevertheless, African farmers do urge their political leaders to fight on their behalf for the elimination of at least the worst effects of that protection policy, which would significantly benefit African farmers and the OECD taxpayer countries as well.

41. The worst effects of the protection policies concern the impact that subsidized exports from industrialized countries have on the level of international market prices of commodities exported by SSA, and on the unfair competition of subsidized exporters in the domestic markets of SSA.

42. The extent of the potential gain that SSA may expect from a significant reduction in the subsidization of some of the least efficient cropping activities in the OECD countries is also well illustrated in the case of cotton. In 2002, the World Bank estimated¹² that the abolition of the US subsidy to cotton growers would increase the international market price of cotton lint by USD 12 USD per lb. For the West African cotton-exporting countries alone, this would generate increased net trading resources to the amount of USD 250 million per annum. The World Bank paper estimates that this amount would be equivalent to 14 percent of the current flow of ODA from all sources to West African countries.

43. Similarly, in the EU the abolition of support to cotton growers would open to international suppliers a market equivalent to the current level of the combined cotton lint exported by all the SSA countries that now enjoy preferential treatment on the EU market. In the short run, such a measure would generate a further significant price increase, perhaps of the same magnitude of that expected from the abolition of the US subsidy. For the West African countries alone, the two measures combined might well represent annual trading benefits equivalent to some 30 percent of the resource transfer now channeled to them through ODA.

¹⁰ A. Matthews. Policy Coherence for Development: Issues in Agriculture: An Overview, 2005

¹¹ Matthews, 2005.

¹² Cotton Sector Strategy in West Central Africa, World Bank Policy research paper 2957, Washington July 2002

44. In addition, a strong incentive to real growth in the African economies would result. African farmers and ginneries have proven their capacity to increase production in response to market demand in a competitive environment. In the CFA zone of West Africa alone, production doubled from 1990 to 2000, keeping consistently good-quality cotton lint standards, high crop yields (over 1 ton/ha) and ginning ratios higher (about 43 percent) than in other areas of the developing world. A further doubling can certainly be achieved in a shorter time if price prospects were favourable. One need only consider experience to date, the under-utilization of the natural potential for growing the crop successfully, and the human and physical capital that has accumulated in the sector since the early 1980s.

45. The cotton case may be emblematic, but it does not tell the entire story. Country and case studies reveal a disturbing scenario for the economic development prospects of agriculture and of the agro-industries in SSA. A recent review of the situation in Ghana provides insight into this situation with respect to poultry rice, and tomato processing¹³.

46. West Africa imports 8 percent of the total exports of chicken meat from the EU, which is directly and indirectly heavily subsidized. One third of the EU exports to SSA enter the Ghana market. By the end of the 1990s, Ghana had abolished all import quotas and reduced the tariffs on agricultural and agro-industrial products to a fraction of what the country is allowed under World Trade Organization (WTO) rules. This resulted in a very large increase in the import of frozen chicken meat from the EU in particular. About half of the imports consist of “backs and necks” that would otherwise have been sold to the pet food industry in Europe. The Ghanaian poultry industry, previously thriving under solid tariff protection, was severely hit. The share of the market supplied by domestic producers fell from 50 percent in the mid-90s to 11 percent in 2002. Approximately 400,000 chicken farmers in Ghana were involved, with a large number of them being forced out of business, hatcheries closing down, slaughterhouse facilities being utilized at a fraction of capacity, and employees being laid off. Given the number of people involved, estimated at 1.5 million, Ghanaian farmers believe that import liberalization and tariff reduction is a sort of a national disaster. A similar scenario describes the disruption of the tomato-growing and -processing industry and of rice production.

47. Ghanaian producers suffered considerable losses; to what extent did Ghanaian consumers benefit? Low-quality imported poultry products are indeed available in the urban markets for a significantly lower price than domestic products, which are admittedly of significantly higher quality. Some poor people now can afford the backs and necks of broilers, which add taste, some fat and a little protein to their soup. However, these advantages, which benefit mostly urban consumers in the largest cities, are not obtained without risk. Although a reliable measure of the sanitary risks is hard to obtain, controls on the imported frozen meat are not very effective in African countries. Some of the samples checked in Ghana and Cameroon reported 15 percent salmonella infections at the point of entry. There is also the very real risk of thaw caused by freezing several times in transit from Europe to retailing in Africa.

48. The incoherence of EU protection of agriculture is even greater with respect to highly labor-intensive production that has little to do with “food sovereignty”, such as horticultural products. The EU has invested heavily in developing hothouse production of crops that can be grown much more cheaply in Africa’s open fields. Because of labor scarcity in Europe, horticulturalists there utilize immigrant labour to a very large extent. A fair percentage of this labour is illegal. Illegal immigration is associated with an increase of criminality, and with rising costs of policy enforcement of immigration rules. To these conditions must be added the subsidies paid to high-cost producers of the same products that the illegal immigrants

¹³ M. Khor and Tetteh Hormeku. *The impact of globalization and liberalization on agriculture and small farmers: the experience of Ghana, 2005*

could legally produce in their own countries if they were allowed to sell them to the EU from there, with beneficial effects for European consumers, European taxpayers and African farmers alike.

The July Agreement

49. The African perception is that the negotiations of the first half of 2004 that led to the “July Agreement” have succeeded at long last to initiate a serious debate on the need for industrialized countries to make a real effort to support agricultural development in SSA. In this connection there are signals that the World Bank as well may begin to look at the African agricultural development issue with a new frame of mind.

50. The stumbling block at Cancun was influenced by the very marginal progress made in the US Farm Bill of 2002 on the subsidy issue, and to the EU Common Agricultural Policy (CAP) approved in 2003, which modified nothing in the level of public support to domestic agriculture, including the subsidies to exporters of agricultural and agro-industrial products.

51. The July Agreement concerns only the “modalities” for the continuation of negotiations. In that framework, developing countries have accepted the principle that OECD countries have the right to maintain a high level on tariff protection for “critical products”, on condition that this be compensated by a larger liberalization of imports of “other products”. The interpretation of this clause in African farmers’ circles is that it meets the interest of the emerging middle-income countries much more than their own. The language of the protocol shifts the solution of issues of tariffs and subsidies to a future, and not specified, time. There is, however, room for negotiating some reduction of the protection of domestic producers, when it results in “trade distortion”. The level proposed for the initial year of implementation (a reduction by 20 percent) is a fraction of the domestic “protection” that enables US and EU producers to seriously disturb international market prices or to compete in the domestic markets of developing countries. Furthermore, the very definition of the factors of trade distortion is challenged by the organizations of African farmers on solid technical grounds.

52. The July Agreement on agriculture includes measures concerned with the case of cotton. But what was envisaged is only the establishment of an *ad hoc* Investigating Committee, actually nominated in November 2004. One year later, a report is being hastily put together for the December 2005 Hong Kong meeting. Twelve million people in SSA alone await the concrete outcome of the results of yet another round of discussions.

Policy coherence issue no. 5: system of incentives confronting agricultural producers in SSA

53. Most governments in SSA have produced Poverty Reduction Strategy Papers (PRSP) that emphasize the importance of faster growth of agriculture for achieving significant reductions in rural poverty. How consistent is the system of incentives provided by the current agricultural policies with the strategies recommended by the PRSPs?

54. The relevant system of incentives includes the entire framework of factors that can facilitate “growth with equity” in the agricultural sector. Policy coherence would require enhanced efforts to rebuild, on new bases, the network of service delivery to agricultural producers that was drastically scaled down by the structural adjustments of the 1980s. Rural people in SSA believe that their governments, and their financiers and advisors, are not doing enough to establish an enabling environment for the emergence of efficient and effective providers of services to agricultural producers in critical fields (e.g. research and technology transfer, rural financial services, agro-industrial credit, crop and product marketing). Competition among service providers for public funds and full accountability for performance to their farming clients are pre-conditions of efficiency and effectiveness. Competition

between private and public service providers for public funds, combined with instruments that ensure that providers are accountable to the users of services, has been successfully introduced in other parts of the developing world. It is lagging in SSA. SSA governments need to ask themselves in what way they are responsible for the slow progress. They will uncover many reasons, including the reluctance of their own administrations to respond to the challenge of competition, and their incapacity to evolve their role from that of performing pre-determined field tasks to that of governing development processes.

55. The amount of public financial resources made available to the agricultural sector is only part of the package of measures that may result in rural poverty reduction. Nevertheless, it is one of the necessary conditions. A key aspect where the coherence of SSA governments' policies for rural development will be tested is with respect to the share of budget expenditure allocated to agricultural development, the quality of that expenditure, and the ratio of total public expenditure in the rural vs. urban areas. In this connection, it is important to recall the decision taken at the Maputo meeting of Heads of State in 2003 that the budget allocation to agriculture in all countries of SSA should be no less than 10 percent. It is also important to entrust the monitoring of implementation of this decision to the New Partnership for Africa's Development (NEPAD).

56. The elimination of policy incoherence is very important indeed. However, the view in rural Africa is that the key factor of an effective system of incentives is an expanding market at remunerative prices for African producers. This introduces the second issue of coherence raised by representatives of African farmers with respect to their own governments' policies.

Policy coherence issue no. 6: international trade policies of SSA governments

57. Organizations of African farmers emphasize the lack of coherence between the international trade policies pursued by many governments in SSA and the objective of providing an expanding market at remunerative prices for African agricultural producers, which is a critical condition for a sizeable and sustainable impact on rural poverty.

58. In July 2005, the Réunion des Organisations Paysannes et des Producteurs des Pays de l'Afrique de l'Ouest (ROPPA) organized a Forum at Ouagadougou to discuss the implications for African agriculture of the Cotonu Agreement, and of the Economic Partnership Agreements (EPA) proposed by the EU as the main instrument of the implementation of the Cotonu Agreement.

59. The Forum highlighted the lack of coherence between two main factors: the objectives of the Cotonou Agreement (poverty reduction, food security, enhancing development opportunities) and the recognition of the need for flexibility in addressing the situation of the weaker trading partners; and the acceleration of market liberalization and the abolition of preferential treatment for African products under the time phasing suggested in the EPA road map.¹⁴ Participants pointed out "the manipulation" by OECD countries of definitions and rules of the WTO on "dumping" and "subsidization", which allows the continuation of protection of their high-cost producers and exporters and causes considerable damage to the emerging economies in SSA.

60. Four key considerations are at the basis of the views held by most participants:

- International market prices determine the level of farm-gate prices in SSA.

¹⁴ *Rèflexions sur la mise en oeuvre de ECOWAP dans le cadre des accords commerciaux internationaux de l'APE e de l'OMC, Ouagadougou 2005 ; Termes de Référence du Forum Regional sur la Souveraineté Alimentaire ; Où se battre pour que les pauvres puissent profiter des marchés ?*

- African producers are ready and willing to operate in a competitive market, provided competition is among equal partners.
- Competition among African producers is among equal partners. However, African producers are not equal partners with those non-African producers who have much better access to information, credit, technology and external economies as well as special protection of their governments.
- SSA governments are not doing enough to redress the situation – for example, by keeping the tariff protection of domestic agriculture at 20 percent, well below the level admitted by WTO regulation (which allows up to 100 percent).

61. At Ouagadougou, there was consensus that the EU-proposed EPA represents a setback from the conditions enjoyed under the Lomé Agreement and the subsequent concessions unilaterally granted by the EU within that framework. Basically, Cotonu adds reciprocity to the free entry of the products of most SSA countries, a change that benefits only EU producers, with no additional benefit for SSA. Giving up the privileged positions of African producers will unquestionably result in less production and income. How can SSA governments reconcile the acceptance of such losses with their poverty reduction objectives?

62. Would African consumers benefit from the EPA? At Ouagadougou it was pointed out that the EPA proposal has a very regressive pro-urban bias. Consumers in African villages would hardly notice the free entry of EU goods: consumer goods of European origin are not in great demand among African village dwellers; on the other hand, the investment goods they demand (e.g. fertilizer) already enter duty-free. In short, farmers would not be affected by the change. For city dwellers it makes a difference, with the larger benefits accruing to the wealthier people who can afford to buy expensive goods imported from Europe.

63. Concerns were also expressed with respect to the implications of drastic reductions in the tariffs currently placed on goods imported from the EU on the SSA governments' fiscal base. SSA governments would be forced to replace the lost revenue (some estimates were as high as 80 percent of current total receipts from import duties) with other forms of taxation that may be considerably more difficult to enforce, particularly by administrations with poor human physical and financial resources. This would have a negative impact on the financial position of governments that already experience serious budgetary difficulties, and would further curtail the chances that public expenditure on agriculture and rural development could increase as required to achieve rural poverty reduction objectives. The possible recovery of lost revenue from an increasing tax base due to economic growth resulting from liberalized markets is a potential that nobody doubts will take a long time to materialize.

64. Participants in the ROPPA Forum pointed out that African agriculture and agro-industries will never be able to compete with subsidized competitors unless they themselves are supported with public subsidies (which is an unsustainable option in Africa). They also pointed out that they need time to expand their technical and financial bases to be able to compete effectively in the international arenas. Historically, areas of free exchange were established by the developed nations among clusters of countries in which industrial and human development and basic infrastructure were reasonably balanced so that competition was encouraged among equal partners. It is this process that African governments should encourage more forcefully.

65. The conclusion is a double request for a coherent rural poverty reduction policy: (i) phasing the EPA over a long period of time, at least 20 years, and in step with the reduction of EU subsidies to their own domestic agricultural producers and exporters of agricultural and agro-industrial products; and (ii) strengthening the African regional common markets to expand the opportunities of African producers, working towards a solid common protection, and a much stronger integration of the regional economies than has been achieved so far.

Policy coherence issue no. 7: pace of regional economic integration and toward common regional agricultural development policies in SSA

66. There seems to be consensus in SSA on the need to coordinate regional economic integration policies with the formulation and implementation of coherent regional agricultural development policies.

67. A positive feature of the Cotonu Agreement is that the EPAs will not be negotiated between the EU and the SSA countries individually, but between the EU and the different common market organizations established in SSA: Economic Community of West African States (ECOWAS) in West Africa, Communauté Economique et Monétaire de L'Afrique Centrale (CEMAC) in Central Africa, East African Community (EAC) in Eastern Africa, and Southern Africa Development Community (SADC) in Southern Africa. If closely adhered to, this approach will encourage an acceleration of the process of regional economic integration. In order to bring about significant progress in rural poverty reduction, though, this process, and the related international trade policies, must be made coherent with a common regional agriculture development policy. At the moment, common regional agricultural development policies are not yet in sight.

68. Organizations of African producers are strongly advocating functioning common African markets. They see a coherent African strategy geared towards establishing an appropriately protected, internally competitive environment in the regional common markets. Within those markets, there should be active competition among private, public and cooperative economic organizations, with no privileges for one or the other form of organization of economic activity or across country boundaries. Was this not the way the European common market was first established and nursed since the time of the Treaty of Rome almost fifty years ago? Was the European common market not conceived as a protected market? Why should African countries that are less developed than the European countries of the 1950s expose themselves to situations in which unequal partners would be allowed to play a dominant role (not too differently than in colonial days)?

69. The other clear message points to the incoherence between the need for accelerating the integration of the regional economies to build a strong basis for African production, and the lack of a common agricultural development policy shared by all the concerned countries. Regional organizations exist that can provide venues, mechanisms and institutions to facilitate the elaboration of such common policy and eventually the monitoring and evaluation of its implementation.

Policy coherence issue no. 8: how enabling is the environment for developing strong institutions at grassroots level?

70. The reform of the public administration has gone a long way to change the political environment in several countries of SSA. In these countries, democratically elected local governments are established in districts and provinces, bringing "government nearer to the people". The international community supported this process with large contributions of public finance, training and advice, concentrating on the decentralization of the public administration to the district level. Critical responsibilities have been devolved in matters of key local interest, such as basic social services and agriculture. The cost of decentralization often turns out to be, in practice, much higher than that forecast by the advocates of the reform. Nevertheless, it has also proven to be politically achievable, and made to work.

71. To what extent are rural people in SSA satisfied with the institutional evolution that is taking place? The question raises issues that are not directly related to the relationship between agricultural development and trading policies, yet they must be briefly mentioned

because local governance is one of the key MDGs of particular importance in SSA. Moreover, the quality of the process aimed at improving governance has a bearing on the response of people in rural areas.

72. Some observers are of the opinion that the district level is still far too distant from the rural communities for people to have an influence in matters that affect their livelihoods. District administrations are dominated by professional political intermediaries who have a double allegiance – to their constituency and to the party that engineers and finances their election. The latter predominates in the long run, because it is in the party organization that a local politician has a career prospect. Other observers maintain that, even if dominated by professional politicians and controlled by the apparatus of centralized political parties, district governments are a great step forward in the right direction. They also maintain that, in a number of countries where the process has advanced, improvements in local governance are noticeable.

73. What is relevant for the rural people in SSA is the scope left by the evolving decentralized administrations for grassroots-level institutions to develop, in particular with respect to: the emergence of new local leaders; the formation of a strong and autonomous community; and professional organizations with bargaining power vis-à-vis district administrators and with the capacity to establish new linkages with the market and with a variety of potential sources of partnership in development.

74. People's empowerment is critical for generating consensus and mobilizing energies for poverty reduction. It is more than a key contribution to the mechanisms that improve livelihoods and increase production. It is part and parcel of poverty reduction. A coherent institutional development policy would work in that direction. This coherence is not emerging clearly enough; bringing it about requires more imagination, understanding, good will and political determination than has been mobilized so far.

V. A final word: the political dimension

75. Coherent poverty reduction policies in SSA cannot be formulated without due reference to the political framework as it affects both donors and receiving countries. What really counts in history is the political interest behind the determination to address problems, and the balance of power that determines whether sets of decisions coherent with policy objectives can really be carried out. A realistic assessment of the political premises and implications of policy coherence is thus required. Five main considerations are offered in this respect.

76. **Critical mass.** The first consideration concerns the critical political mass of most countries in SSA: they are too small and politically too un-influential to negotiate successfully with large traditional counterparts such as the US, the EU, the World Bank and the International Monetary Fund IMF. The world is no longer divided between “North and South” as a result of the emergence of large and fast-developing middle-income countries, which, combined, account for half of the world's population (China, India, Brazil), in addition to a number of smaller but very dynamic economies, mostly in Asia. The African regional common market organizations could become politically significant aggregations. However, this would depend on the extent to which they consolidate the level of integration of the economies of member countries, develop large regional markets and corresponding economies of scale, and present a united front vis-à-vis their external partners in development and trade.

77. **Food sovereignty.** The second consideration is that the political setting in industrialized countries only allows their governments to reason in terms of “food sovereignty”. The list of “critical products” that make up an acceptable level of “sovereignty”

is a matter of tough internal and external negotiations. This situation is made more critical by a growing threat to the still fragile African economies posed by new competitors entering the international market arena. These are facts of life which Africans begin to feel they are in no position to modify or influence. Accordingly, the African response cannot be but to develop its own policy on the same grounds. Good political and economic reasons suggest that African countries must accelerate their economic integration on a regional basis, and that the integration must include appropriate protection against unfair competition from outside the regional common markets.

78. ***Political drive.*** The third consideration is that African governments must show much stronger determination in removing obstacles to agricultural development. This requires the political courage and the capacity to introduce and manage a different relationship between the urban and rural worlds in their own countries. A significant acceleration of agricultural development and rural poverty reduction requires political drive, which is about mobilizing energies and maintaining momentum. It requires the mobilization of larger domestic resources – i.e. a change in the urban-rural bias in public expenditure – to match a much larger inflow of external resources – i.e. a change in the share of agriculture in the ODA disbursed in SSA. It also requires a new balance in the roles of “state and market” to bring about more rural infrastructure, more technological change and more financial services – in a nutshell, an enabling environment for a faster and more effective delivery system that responds to the demands of agricultural producers in SSA.

79. ***Decision-making capacity.*** The fourth consideration concerns the capacity of decision makers to analyse and assess situations and to effectively manage policies that are coherent with set objectives. With regard to central governments, this is all the more urgent and relevant if the structure of ODA will include an even larger proportion of debt relief and thus provide more freedom in the use of public resources by governments and political intermediaries.

80. ***Consensus.*** The fifth consideration concerns the consensus, and the political process that brings about consensus. This is a key issue of governance in rural areas, and is not simply a question of providing more services to people. It is about the development of enabling grassroots institutions and the emergence of new leaders at community level, strong farmers’ associations, sustainable cooperative micro-finance associations, etc. – in short, creating a network that empowers people to drive their own socio-economic and human development.