A Scoping Study for Detailed Case-studies of Trade Facilitation/Export Promotion Projects for Non-Traditional Agricultural Products in Sub-Saharan Africa

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<thead>
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<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACP</td>
<td>Africa, Caribbean and Pacific Group of States</td>
</tr>
<tr>
<td>AGOA</td>
<td>African Growth and Opportunity Act</td>
</tr>
<tr>
<td>AMSCO</td>
<td>African Management Service Company</td>
</tr>
<tr>
<td>APEP</td>
<td>Agricultural Productivity Enhancement Project</td>
</tr>
<tr>
<td>APROFA</td>
<td><em>Agence pour la promotion de la filière agricole</em> (Mali)</td>
</tr>
<tr>
<td>ASAP</td>
<td>Agribusiness Systems Assistance Program (Philippines)</td>
</tr>
<tr>
<td>CDIE</td>
<td>Center for Development Information and Evaluation (of USAID)</td>
</tr>
<tr>
<td>CIRAD</td>
<td><em>Centre de coopération internationale en recherche agronomique pour le développement</em></td>
</tr>
<tr>
<td>COLEACP</td>
<td>Europe-Africa-Caribbean-Pacific Liaison Committee</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CTIFL</td>
<td><em>Centre technique et interprofessionel des fruits et légumes</em> (France)</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>E</td>
<td>Euro (currency)</td>
</tr>
<tr>
<td>EBAS</td>
<td>European Business Assistance Scheme</td>
</tr>
<tr>
<td>ECCAS</td>
<td>Economic Community of Central African States</td>
</tr>
<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
</tr>
<tr>
<td>EFTA</td>
<td>European Free Trade Association</td>
</tr>
<tr>
<td>EIB</td>
<td>European Investment Bank</td>
</tr>
<tr>
<td>EPC</td>
<td>Export Promotion Council (Kenya)</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EUREP</td>
<td>Euro Retailer Produce Working Group</td>
</tr>
<tr>
<td>EUREPGAP</td>
<td>Euro Retailer Produce – Good Agricultural Practice</td>
</tr>
<tr>
<td>FAO</td>
<td>United Nations Food and Agriculture Organization</td>
</tr>
<tr>
<td>FPA</td>
<td>Fresh Produce Association (Europe)</td>
</tr>
<tr>
<td>FPC</td>
<td>Fresh Produce Consortium (U.K.)</td>
</tr>
<tr>
<td>FPEAK</td>
<td>Fresh Produce Exporters Association of Kenya</td>
</tr>
<tr>
<td>GAP</td>
<td>Good Agricultural Practice</td>
</tr>
<tr>
<td>GCC</td>
<td>Global Commodity Chain</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross domestic product</td>
</tr>
<tr>
<td>GTZ</td>
<td>German Technical Assistance Agency</td>
</tr>
<tr>
<td>HACCP</td>
<td>Hazard Analysis Critical Control Points</td>
</tr>
<tr>
<td>HCDA</td>
<td>Horticultural Crops Development Authority (Kenya)</td>
</tr>
<tr>
<td>ICM</td>
<td>Integrated Crop Management</td>
</tr>
<tr>
<td>IFAD</td>
<td>International Fund for Agricultural Development</td>
</tr>
<tr>
<td>IPM</td>
<td>Integrated Pest Management</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>KARI</td>
<td>Kenya Agricultural Research Institute</td>
</tr>
<tr>
<td>KFC</td>
<td>Kenya Flower Council</td>
</tr>
<tr>
<td>KPHIS</td>
<td>Kenya Plant Health Inspection Service</td>
</tr>
<tr>
<td>K-REP</td>
<td>Kenya Rural Enterprise Program</td>
</tr>
<tr>
<td>Ksh</td>
<td>Kenyan shilling</td>
</tr>
<tr>
<td>Abbreviation</td>
<td>Description</td>
</tr>
<tr>
<td>--------------</td>
<td>-------------</td>
</tr>
<tr>
<td>MARD</td>
<td>Mahaweli Agricultural and Rural Development Project (Sri Lanka)</td>
</tr>
<tr>
<td>MED</td>
<td>Mahaweli Economic Development Project (Sri Lanka)</td>
</tr>
<tr>
<td>MRL</td>
<td>Maximum Residue Level</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
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<tr>
<td>NTAE</td>
<td>Non-traditional agricultural exports</td>
</tr>
<tr>
<td>OCAB</td>
<td>Office de la commercialisation de l’ananas-banane (Côte d’Ivoire)</td>
</tr>
<tr>
<td>PIP</td>
<td>Pesticide Initiative Program (of COLEACP)</td>
</tr>
<tr>
<td>PROEXAG</td>
<td>Non-Traditional Agricultural Export Support Project (Guatemala)</td>
</tr>
<tr>
<td>PROPARCO</td>
<td>Société de promotion et de participation pour la coopération économique (subsidiary of Agence française de développement, AFD)</td>
</tr>
<tr>
<td>PVO</td>
<td>Private voluntary organization</td>
</tr>
<tr>
<td>RCI</td>
<td>Republic of Côte d’Ivoire</td>
</tr>
<tr>
<td>RSA</td>
<td>Republic of South Africa</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium Enterprises</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Program</td>
</tr>
<tr>
<td>USAID</td>
<td>U.S. Agency for International Development</td>
</tr>
<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
</tr>
</tbody>
</table>
Introduction: purpose and organization of the study

Purpose of the study. The purpose of this study is to conduct a broad review of non-traditional, higher value agricultural exports (NTAE) from Sub Saharan African (SSA) countries, from three different perspectives, namely:

- market factors;
- supply factors; and
- donor support programs.

Analysis of these different dimensions of the region’s prospects for sustained growth in NTAEs will determine the nature of a subsequent in-depth evaluation of several exporting SSA countries’ export promotion programs that the World Bank intends to carry out in the near future in order to help improve both the economic performance and sustainability of the region’s agricultural export sectors.

Organization of the study. The current phase of the study was carried out between March and June 2002 and involved:

- an analysis, by product, of SSA NTAEs going to the European Union (EU) over the 1990-2000 period, and a review of market conditions and access requirements;
- visits to retail and wholesale markets in the United Kingdom (UK) and France, and meetings with trade organizations in both countries;
- a 10-day field trip to Nairobi to meet with leading players in the vegetable, fruit and flower export industry;
- a desk review of NTAE development in Uganda, Kenya and Cote d'Ivoire;
- a desk review of several agricultural export development programs in Africa and elsewhere, and particularly those of the United States Agency for International Development (USAID);
- discussions with World Bank staff in Washington of the preliminary results, and with specialist researchers in the UK.

The report is structured as follows:

- Definition of NTAEs;
- Markets for Sub-Saharan Africa’s NTAEs;
- Supply factors and the enabling environment for export development;
- Review of technical assistance to NTAE development;
- Factors determining success in NTAE development;
- Recommendations for subsequent phases of the study;
- Annexes: market and production statistics, visit notes, itineraries, etc.
I. COMPOSITION OF NON-TRADITIONAL AGRICULTURAL EXPORTS (NTAEs)
FROM SUB-SAHARAN AFRICA (SSA)

1.1 The definition of NTAEs is problematic, since they are essentially a heterogeneous basket of products defined in terms of what they are not, rather than by their own intrinsic characteristics. Ng and Yeats (“What can Africa expect from its traditional exports?”, World Bank, February 2002) provide us with the following list of traditional agricultural export crops from SSA that have figured significantly in the region’s exports over a prolonged period:

<table>
<thead>
<tr>
<th>Main Products</th>
<th>Marginal products</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cocoa beans</td>
<td>Palm nuts &amp; kernels</td>
</tr>
<tr>
<td>Sisal or agave fibers</td>
<td>Groundnuts (green)</td>
</tr>
<tr>
<td>Sesame seeds</td>
<td>Palm kernel oil</td>
</tr>
<tr>
<td>Groundnut oil</td>
<td>Palm oil</td>
</tr>
<tr>
<td>Tea</td>
<td>Vegetable oils (fixed)</td>
</tr>
<tr>
<td>Saw and veneer logs</td>
<td>Maize (unmilled)</td>
</tr>
<tr>
<td>Tobacco, leaf or stems</td>
<td>Fur pelts</td>
</tr>
<tr>
<td>Sheep skins without wool</td>
<td>Vegetable oil cake</td>
</tr>
<tr>
<td>Cotton (raw)</td>
<td>Fish oils</td>
</tr>
<tr>
<td>Cocoa butter and paste</td>
<td>Hides (bovine and equine)</td>
</tr>
<tr>
<td>Goat and kid skins (raw)</td>
<td>Meat extracts</td>
</tr>
<tr>
<td>Natural gums and resins</td>
<td>Plywood</td>
</tr>
<tr>
<td>Sugar (raw)</td>
<td>Rice (glazed or polished)</td>
</tr>
<tr>
<td>Tobacco (stripped)</td>
<td></td>
</tr>
<tr>
<td>Cotton seeds</td>
<td></td>
</tr>
<tr>
<td>Chemical wood pulp</td>
<td></td>
</tr>
<tr>
<td>Leathers (miscellaneous)</td>
<td></td>
</tr>
<tr>
<td>Coffee (green or roasted)</td>
<td></td>
</tr>
<tr>
<td>Lumber (shaped, non-conifer)</td>
<td></td>
</tr>
<tr>
<td>Fruit (fresh or dried)</td>
<td></td>
</tr>
<tr>
<td>Fish (prepared or preserved)</td>
<td></td>
</tr>
<tr>
<td>Shellfish</td>
<td></td>
</tr>
</tbody>
</table>

1.2 This classification of traditional exports on the basis of their historic importance would allow us to classify some low-volume (if high-value) agricultural exports from SSA (e.g., cut flowers and off-season vegetables) as non-traditional, if they have emerged as significant in a given SSA country’s export trade over the past decade. Some essential oils and extracts may also qualify as NTAEs if their ascendance has been only recent. However, vanilla and nutmeg would not qualify, due to their long-standing importance in Madagascar (although the same cannot be said of Ugandan vanilla, whose importance is growing).

1.3 The time dimension of the “traditional vs. non-traditional” concept also implies the relative maturity of the industry, its potential for instability, or the lack of sustainability of a possibly ephemeral sector. An attempt to label products as “traditional” or “non-traditional” can therefore lead to a very mixed bag of products, in which nascent industries such as shrimp and Lake Victoria fish exports, medicinal plant extracts and cut flowers would sit alongside French beans and organic
Asian vegetables. Analysis of these sectors would confront a broad range of supply and market conditions that would impede detailed analysis and could possibly lead to broad generalizations of limited practical use. For practical purposes, it is therefore preferable to define the concept in such a way as to narrow its scope to a homogeneous set of products that also incorporates the conventional criteria of historical importance and economic significance. For purposes of the present study, NTAEs are thus defined as:

**high-quality food and ornamental products, principally perishables, which in recent years have begun to make a significant contribution to the economies of the exporting countries.**

1.4 Being predominantly perishable, NTAEs share common logistical, packaging and conservation requirements, while as consumer products they have similar marketing requirements. The main products of interest in this context are:

- fresh vegetables, loose and packed;
- cut flowers;
- fresh fruit;
- spices.

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1 Indian Ocean shrimp and Lake Victoria fish exports have been excluded due to their special production, logistical and marketing requirements, though many of the findings of our study may be relevant to this growing sector.
II. DESTINATION MARKETS FOR SUB-SAHARAN AFRICA’S NON-TRADITIONAL AGRICULTURAL EXPORTS

2.1 Sub-Saharan Africa’s geographic location dictates that most of its hard-currency NTAEs will be aimed at Europe, and particularly at the affluent markets of the EU and EFTA countries. Middle Eastern markets are relevant to Eastern and Southern African countries, but their smaller size as well as competition from Mediterranean, Indian and Southeast Asian suppliers greatly limits the growth potential of such outlets for SSA products. The region's distance (as reflected in airfreight rates and sea transit times) from potentially lucrative markets such as the United States (particularly attractive under AGOA), Canada, Japan and Australia, as well as the availability of products from alternative suppliers, also removes any a priori competitive advantage that SSA may have in these markets. Eastern Europe is undoubtedly a growth area as economies develop and stabilize, but the fragility of consumer buying power currently renders the market unreliable and of limited relevance to sustainable growth, as made evident by the collapse of Russian rose imports from Kenya in the late 90's. Consequently, the emphasis for NTAE development analysis and forecasts – and thus of this study as well -- must be on the EU market itself.

2.2 This is not to denigrate the regional market for both intra-SSA trade and trade between SSA and the Maghreb countries. For example, the Republic of South Africa (RSA) exports citrus, top fruit, stone fruit and grapes to its immediate and more distant neighbors such as Kenya and the Sahelian and West African coastal countries. Kenya exports avocados to RSA, while Mali and Niger maintain an active trade in onions to coastal countries such as Ivory Coast, Senegal and Nigeria. Burkina Faso and Mali distribute their mango crops into Mauritania and Niger, and sometimes even to Libya and Algeria, while Cote d'Ivoire supplies bananas to its more arid neighbors. The potential for such trade is little known in donor circles and it tends to be informal and sporadic, rather than conducted along well-established formal-sector circuits, as is the case for exports to the EU.

2.3 Though it is outside the scope of the present study, intraregional trade should not be overlooked during subsequent analysis of the topic. Indeed, the potential for the regional trade in NTAEs to benefit from donor investments could well be inversely proportional to its current degree of development, if one accepts that natural growth in consumption of these products should increase effective demand in the importing countries.
Table 1: Value of non-EU fruits and vegetables imported to the EU

<table>
<thead>
<tr>
<th>Value (€ ‘000)</th>
<th>1999 / EUR 15</th>
<th>2000 / EUR 15</th>
<th>% 2000 / 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits</td>
<td>7 086 093</td>
<td>7 291 584</td>
<td>+3</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1 013 141</td>
<td>1 060 489</td>
<td>+5</td>
</tr>
<tr>
<td>Total Value</td>
<td>8 099 234</td>
<td>8 352 073</td>
<td>+3</td>
</tr>
<tr>
<td>ACP*</td>
<td>850 798</td>
<td>999 895</td>
<td>+17.5</td>
</tr>
<tr>
<td>Southern hemisphere **</td>
<td>2 019 125</td>
<td>1 927 493</td>
<td>-9</td>
</tr>
<tr>
<td>Mediterranean basin ***</td>
<td>1 854 757</td>
<td>1 855 046</td>
<td>=</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Volume in tons</th>
<th>1999 / EUR 15</th>
<th>2000 / EUR 15</th>
<th>% 00/99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits</td>
<td>8 428 345</td>
<td>8 246 879</td>
<td>-2</td>
</tr>
<tr>
<td>Vegetables</td>
<td>1 385 410</td>
<td>1 217 513</td>
<td>-1</td>
</tr>
<tr>
<td>Total Volume</td>
<td>9 813 755</td>
<td>9 464 392</td>
<td>-4</td>
</tr>
<tr>
<td>ACP*</td>
<td>1 118 535</td>
<td>1 202 851</td>
<td>+7.5</td>
</tr>
<tr>
<td>Southern hemisphere **</td>
<td>2 598 868</td>
<td>2 357 783</td>
<td>-13</td>
</tr>
<tr>
<td>Mediterranean basin ***</td>
<td>2 138 485</td>
<td>1 897 381</td>
<td>-11</td>
</tr>
</tbody>
</table>

Source: Eurostat. Produced by: COLEACP, CSIF.

* ACP less RSA

** Southern Hemisphere: Argentina, RSA, Brazil, Chile, Namibia, New Zealand, Swaziland, Uruguay, and Zimbabwe.

*** Mediterranean Basin (Eurostat code 1051): Albania, Algeria, Bosnia Herzegovina, Ceuta & Melilla, Cyprus, Transjordan / Gaza Strip, Croatia, Egypt, Gibraltar, Israel, Jordan, Lebanon, Libya, Malta, Morocco, Yugoslavia, Slovenia, Syria, Tunisia, Turkey.
Graph 1: Fruit imports to the EU in 2000 (8,246,879 tons)

*Other fruits = melons, papaya, watermelon, mangoes, guavas, dates and figs.

Table 2: Main suppliers of ornamental products to the EU, 2000 (in € '000)

<table>
<thead>
<tr>
<th>Country</th>
<th>Bulbs</th>
<th>Potted plants</th>
<th>Cut Flowers</th>
<th>Dried Flowers</th>
<th>Foliage</th>
<th>Total Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>81</td>
<td>17 943</td>
<td>152 663</td>
<td>351</td>
<td>1 257</td>
<td>172 295</td>
</tr>
<tr>
<td>Israel</td>
<td>3 561</td>
<td>20 202</td>
<td>99 204</td>
<td>1 388</td>
<td>15 994</td>
<td>140 349</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>203</td>
<td>37 749</td>
<td>3 525</td>
<td>96</td>
<td>74 471</td>
<td>116 044</td>
</tr>
<tr>
<td>Colombia</td>
<td>24</td>
<td>221</td>
<td>103 489</td>
<td>818</td>
<td>1 023</td>
<td>105 575</td>
</tr>
<tr>
<td>USA</td>
<td>2 891</td>
<td>7 805</td>
<td>418</td>
<td>456</td>
<td>91 020</td>
<td>102 590</td>
</tr>
<tr>
<td>Ecuador</td>
<td>142</td>
<td>148</td>
<td>77 045</td>
<td>1 044</td>
<td>208</td>
<td>78 587</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>17</td>
<td>806</td>
<td>66 105</td>
<td>16</td>
<td>36</td>
<td>66 980</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0</td>
<td>13 806</td>
<td>160</td>
<td>0</td>
<td>29 873</td>
<td>43 839</td>
</tr>
<tr>
<td>Poland</td>
<td>5 546</td>
<td>16 191</td>
<td>143</td>
<td>1 677</td>
<td>8 876</td>
<td>32 433</td>
</tr>
<tr>
<td>RSA</td>
<td>2 372</td>
<td>4 765</td>
<td>7 778</td>
<td>1 303</td>
<td>11 580</td>
<td>27 798</td>
</tr>
<tr>
<td>Other countries</td>
<td>19 208</td>
<td>84 281</td>
<td>89 008</td>
<td>5 573</td>
<td>60 516</td>
<td>258 586</td>
</tr>
<tr>
<td>Total non-EU</td>
<td>34 045</td>
<td>203 917</td>
<td>599 538</td>
<td>12 722</td>
<td>294 854</td>
<td>1 145 076</td>
</tr>
</tbody>
</table>

Source: Eurostat Produced by: COLEACP
Market Access

2.4 Import regimes. In principle, the EU operates a zero-tariff policy for agricultural products from SSA, with the exception of RSA, which, because of its higher GDP, does not qualify for preferential access. Until recently, bananas were another exception, in that tariffs were applicable above certain quota levels. However, under the “Everything but Arms” policy, duties and quotas on products from the world’s 48 poorest countries -- i.e., almost all of SSA -- were eliminated as of March 5, 2001. Only sugar, rice and bananas are still subject to certain restrictions. Duties on fresh bananas – currently imposed on non-ACP producers -- will be reduced by 20 percent annually starting on January 1, 2002, and will be eliminated by January 1, 2006 at the latest. Duties on rice will be reduced by 20 percent by September 1, 2006, by 50 percent by September 1, 2007, by 80 percent by September 1, 2008, and will be eliminated by September 1, 2009 at the latest. Duties on sugar will be reduced by 20 percent by July 1, 2006, by 50 percent by July 1, 2007, by 80 percent by July 1, 2008, and will be eliminated at the latest by July 1, 2009.

2.5 Logistics of access to the EU. It bears repeating that the only means of access to EU markets for SSA products is by sea or air, since SSA is vulnerable to competition from many sources, e.g., the Mediterranean basin, Asia, Latin America and the Caribbean. Developments in post-harvest conservation are constantly increasing the shelf lives of products, as demonstrated by Morocco’s growth as an off-season
horticultural supplier that can truck its products through Spain at considerably lower costs, or the University of Guelph’s success in extending the life of sea-freighted lychees to 42 days, thereby threatening Madagascar’s current dominance with large supplies from China, or CIRAD’s work on passion fruit storage with a similar impact on closer sources of supply.

2.6 Sea freight transit times of under two weeks to such Northern European destinations as Dieppe, Le Havre, Rotterdam, Felixstowe, Hamburg, etc., have allowed West Africa to develop significant export industries in fruits with long shelf lives, such as banana, pineapple and mango. These industries are largely absent in East Africa, where transit times are as much as 10 days longer and freight rates considerably higher. On the other hand, and despite its distance from Northern Europe, RSA has developed a significant share of the EU market for mango and avocado on the back of its long-established citrus and deciduous fruit export industry, which is served by efficient shipping lines and strong market linkages.

2.7 For highly perishable products such as fresh vegetables and cut flowers, as well as delicate or table-ready fruits such as passion fruit, papaya and some mangoes, airfreight is the only option. The factor determining an industry’s initial viability here is the availability of freight capacity and the level of dollar/kg rates compared to those applicable to competing suppliers world-wide. The vulnerability of SSA’s NTAEs to competition from Latin America or Asia must always be borne in mind when planning or trying to predict future developments in the industry.
Intraregional trade

2.8 Intraregional trade is generally encouraged by the sub-regional trade agreements to which most countries subscribe. For example ECOWAS, WAEMU, ECCAS, COMESA, and SADC are all free trade or customs union areas designed to facilitate trade between member countries, as well as between subregions under the 1991 Abuja Treaty. As a recent World Bank publication (“Can Africa claim the 21st century?”, World Bank, 2000, p. 228) has pointed out, progress towards true economic integration has been slow and the lack of investment flows between countries calls into question the significance of potential welfare gains from freer trade. This note of caution echoes the disillusionment of Sahelian traders in cross-border trade in perishables due to the lack of reciprocal banking arrangements, incompatible currencies, illicit practices and poor transport links and infrastructure, all of which translate into high costs and low volumes. On a more optimistic note, however, higher value products destined for export to the EU do manage to transit effectively through neighboring countries, as is demonstrated by exports of flowers from Arusha to Nairobi and of mangoes from Mali and Burkina Faso via Abidjan.

2.9 A recent study sponsored by the World Bank found that exports of agricultural commodities into the SADC region have tripled since 1994 in Rand terms, while its imports from the region of agricultural commodities and of food, tobacco and beverages have doubled in the post-apartheid and post-liberalization era, mainly from commodities such as cotton, tobacco, and soybeans non-traditional imports, but also some specialty goods (e.g. 250t per year of miniature vegetables from Zambia).

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2 “South Africa’s changing agricultural, food and beverage imports: implications for SADC suppliers”, by Nick Vink and Norma Tregurtha of the University of Stellenbosch and Johann Kirsten of the University of Pretoria
EU imports of Sub-Saharan African NTAEs

2.10 EU imports of NTAEs from SSA have grown dramatically over the past decade, demonstrating the increasing capacity of the region’s agribusiness operators to respond to market demand. The value of a basket of 20 products (excluding flowers) imported into the EU increased by 57 percent between 1990/1992 and 1998/2000. Volumes increased by 53 percent over the period reflecting a slight increase in the value per unit of volume.

2.11 The following tables and figures show the growth in EU imports between 1990 and 2000, by country of origin, for the main products, which are: peas, beans, bananas, avocados, pineapples, mangoes, papayas, passion fruit and vanilla.

2.12 **Peas.** Due to growing demand for sugar peas, snow peas and freshly shelled garden peas, this sector has shown four-fold growth over the period, led by Kenya, which in 1990 produced only a few tons (when Zimbabwe and Zambia together stood at over 2000 t), before expanding to nearly 7000 t and outstripping its southern rivals 3-fold.

2.13 **Beans.** Production of beans stood at a higher level than that of peas (22,000 t) in 1990 and is more widespread. Exports have doubled over the period, driven by Kenyan growth in both fine beans to the EU generally and runner beans specifically for the UK market, while Senegal, Ethiopia, Zambia and Zimbabwe have all shown considerable increases.

2.14 **Bananas.** Despite changes in the marketing arrangements for ACP and dollar bananas, this sector has shown sustained growth, nearly doubling in volume over the period despite the demise of producers such as Somalia and Cape Verde. Ivory Coast and Cameroon doubled their output from a more homogeneous production base, in which large industrial plantations are replacing small- and medium-scale growers.

2.15 **Pineapples.** Imports have grown by over 100,000 tons over the period, led by South Africa and Ivory Coast. The latter now dominates West coast production since Cameroon ceased to export fresh fruit to the EU in 1999. However, Ghana has made dramatic strides in the sector, from 6000 t in 1990 to nearly 30,000 t in 2000.

2.16 **Avocados.** This important sector by volume has nearly doubled over the period to just under 60,000 tons, mainly due to RSA’s increased supplies, presumably from formal orchard production, while Kenya’s share has remained relatively small and erratic, due to the predominance of small-holder production.

2.17 **Guavas, mangoes and mangosteens.** This 25,000-ton market is dominated by mangoes, particularly from Côte d’Ivoire (which also obtains some of its supply from Mali and Burkina Faso) and RSA, countries whose increased market share has driven the strong growth of the entire sector.

---

3 Product basket: peas, beans, asparagus, sweet peppers, sweet potatoes, cashews (shelled), fresh bananas, pineapples, avocados, guavas/mangoes/mangosteens, oranges, papayas, lychees, passion fruit/carambola/pitahaya, vanilla, cinnamon, cloves, nutmeg/mace/cardamom, anise/star anise, etc., whole gingerroot

4 From an average of €465 million over the 1990-1992 period to an average of €730 million over the 1998-2000 period.
Kenya has practically ceased to supply the EU market, due to problems with mango weevils and fruit flies, as well as its greater ease of access to Persian Gulf markets.

2.18 **Papayas.** This market has developed very rapidly over the past five years, as Ghana’s dramatic increases in 1997, 1998 and 2000 testify. Clearly, that country’s exports efforts have been effective and are worthy of further analysis.

2.19 **Passion fruit, star fruit (carambola) and pitahaya.** Although Eurostat groups these fruits together, most of the volume is in passion fruit, of which volume increased considerably up to 1999, mainly due to strong growth in South Africa and Zimbabwe, which should be investigated further. Some commentators consider this market to be subject to considerable fluctuation due to the ease with which new plantations can be brought into production, especially in Latin American locales such as Ecuador and Brazil.

2.20 **Vanilla.** Imports have grown considerably over the period, driven by increasing volumes from Madagascar and, sporadically, from Comoros. Although Uganda has gained a foothold in the market, its position is still marginal. Oversupply of this market – and consequent price reductions -- is a strong disincentive to new SSA entrants to the vanilla sector. Nonetheless, the region provides most of the world’s vanilla and must consolidate its position through increased growth.
2.21 **Cut Flowers.** The following table shows the rapid growth of the region’s flower exports to the EU, a trade worth about €270 million 2000, growing at 16 percent per year.

Table 3: Value of EU cut flower imports from SSA, 1994-2000, in €’000

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>65889</td>
<td>75686</td>
<td>84203</td>
<td>99056</td>
<td>110771</td>
<td>130137</td>
<td>153014</td>
<td>132.2%</td>
<td>56.4%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>27721</td>
<td>36012</td>
<td>39974</td>
<td>45291</td>
<td>50377</td>
<td>51166</td>
<td>66121</td>
<td>138.5%</td>
<td>24.4%</td>
</tr>
<tr>
<td>Zambia</td>
<td>3422</td>
<td>4394</td>
<td>6816</td>
<td>8475</td>
<td>12188</td>
<td>15969</td>
<td>17468</td>
<td>410.5%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Uganda</td>
<td>1017</td>
<td>2134</td>
<td>3212</td>
<td>4402</td>
<td>4791</td>
<td>5605</td>
<td>10625</td>
<td>944.7%</td>
<td>3.9%</td>
</tr>
<tr>
<td>RSA</td>
<td>7637</td>
<td>8343</td>
<td>8137</td>
<td>8583</td>
<td>8220</td>
<td>8281</td>
<td>9081</td>
<td>18.9%</td>
<td>3.3%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>2285</td>
<td>3220</td>
<td>3845</td>
<td>5125</td>
<td>5443</td>
<td>7627</td>
<td>8393</td>
<td>267.3%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Cote d’Ivoire</td>
<td>1912</td>
<td>1519</td>
<td>1644</td>
<td>1812</td>
<td>1911</td>
<td>2051</td>
<td>2775</td>
<td>45.1%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Mauritius</td>
<td>1921</td>
<td>1626</td>
<td>1375</td>
<td>1824</td>
<td>1917</td>
<td>1510</td>
<td>1647</td>
<td>-14.3%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Total</td>
<td>113798</td>
<td>134929</td>
<td>151202</td>
<td>176565</td>
<td>197616</td>
<td>224345</td>
<td>271124</td>
<td>138.3%</td>
<td></td>
</tr>
</tbody>
</table>

*Source: Eurostat. Adapted from COLEACP.*

The main cut flower product imported from ACP countries into the EU is roses, with 46 percent of the market in 2000, as the following table shows. (Eurostat data is not available by variety.)

Table 4: EU Imports of cut flowers, 1994-2000, in €’000

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Roses</td>
<td>10295</td>
<td>130</td>
<td>165</td>
<td>186</td>
<td>223</td>
<td>234</td>
<td>282</td>
<td>46%</td>
<td>98%</td>
</tr>
<tr>
<td>Sweet Williams</td>
<td>12560</td>
<td>125</td>
<td>126</td>
<td>128</td>
<td>126</td>
<td>114</td>
<td>119</td>
<td>20%</td>
<td>3%</td>
</tr>
<tr>
<td>Orchids</td>
<td>23667</td>
<td>22906</td>
<td>21015</td>
<td>21115</td>
<td>18843</td>
<td>18085</td>
<td>20643</td>
<td>3%</td>
<td>--</td>
</tr>
<tr>
<td>Gladiolas</td>
<td>436</td>
<td>514</td>
<td>439</td>
<td>313</td>
<td>235</td>
<td>384</td>
<td>384</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Chrysanthemums</td>
<td>6261</td>
<td>5995</td>
<td>4789</td>
<td>1820</td>
<td>2031</td>
<td>1084</td>
<td>1064</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>Others</td>
<td>12433</td>
<td>142</td>
<td>155</td>
<td>166</td>
<td>180</td>
<td>158</td>
<td>175</td>
<td>29%</td>
<td>--</td>
</tr>
<tr>
<td>Total fresh flowers</td>
<td>38326</td>
<td>427</td>
<td>474</td>
<td>504</td>
<td>552</td>
<td>526</td>
<td>599</td>
<td>98%</td>
<td>--</td>
</tr>
<tr>
<td>Dried flowers</td>
<td>19224</td>
<td>13866</td>
<td>14233</td>
<td>14609</td>
<td>13477</td>
<td>13441</td>
<td>12722</td>
<td>2%</td>
<td>--</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40248</td>
<td>441</td>
<td>488</td>
<td>518</td>
<td>565</td>
<td>540</td>
<td>612</td>
<td>100%</td>
<td>--</td>
</tr>
</tbody>
</table>
2.22 It is worth noting that 98 percent of fresh flower exports from ACP countries are of temperate-zone varieties, such as roses and summer flowers, while only 2 percent are tropical such as anthuriums, heliconias, alpinias, and orchids. The market value of ACP flowers varies by country of origin, as the following COLEACP data for roses shows:

- Colombia: 6.96 Euros/kg
- Ecuador: 6.34 Euros/kg
- India: 4.65 Euros/kg
- Kenya: 3.87 Euros/kg
- Israel: 3.58 Euros/kg
- Zimbabwe: 3.57 Euros/kg

2.23 EU imports of roses have trebled over the last nine years, and the EU imported 47,000t of roses worth US$186 million from ACP countries in 2000, mainly of the lower value small-budded sweetheart and spray varieties, while the higher value large budded hybrids or tea roses come from Colombia and Ecuador. Kenya supplies 38 percent of EU imports, as shown in the following table.

Table 5: Main SSA suppliers of the EU rose market (€ ‘000)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Kenya</td>
<td>18300</td>
<td>27426</td>
<td>40262</td>
<td>53058</td>
<td>69712</td>
<td>82884</td>
<td>106599</td>
<td>583%</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>13499</td>
<td>22728</td>
<td>28310</td>
<td>32685</td>
<td>35391</td>
<td>33187</td>
<td>41942</td>
<td>311%</td>
</tr>
<tr>
<td>Zambia</td>
<td>2845</td>
<td>3670</td>
<td>6328</td>
<td>8170</td>
<td>11729</td>
<td>15439</td>
<td>17171</td>
<td>604%</td>
</tr>
<tr>
<td>Uganda</td>
<td>991</td>
<td>2118</td>
<td>3117</td>
<td>4264</td>
<td>4671</td>
<td>5525</td>
<td>10592</td>
<td>1069%</td>
</tr>
<tr>
<td>Tanzania</td>
<td>1702</td>
<td>2738</td>
<td>3517</td>
<td>4750</td>
<td>5301</td>
<td>7323</td>
<td>8177</td>
<td>480%</td>
</tr>
<tr>
<td>Rwanda</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>349</td>
<td>716</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RSA</td>
<td>466</td>
<td>517</td>
<td>793</td>
<td>840</td>
<td>667</td>
<td>439</td>
<td>593</td>
<td>127%</td>
</tr>
<tr>
<td>Malawi</td>
<td>1263</td>
<td>2029</td>
<td>2561</td>
<td>1787</td>
<td>2153</td>
<td>776</td>
<td>465</td>
<td>37%</td>
</tr>
<tr>
<td>Ethiopia</td>
<td>10</td>
<td>240</td>
<td>224</td>
<td>246</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>39066</td>
<td>61226</td>
<td>84888</td>
<td>105564</td>
<td>129864</td>
<td>146146</td>
<td>186720</td>
<td>478%</td>
</tr>
</tbody>
</table>

Source: Eurostat. Prepared by COLEACP.
III. SUPPLY FACTORS AND ENABLING ENVIRONMENT FOR EXPORT DEVELOPMENT

Compliance with EU market and regulatory requirements

3.1 Imports of fresh produce into the EU market must meet stringent requirements regarding appearance, organoleptic quality, uniformity within grades, freshness, physiological maturity, freedom from pests and diseases, absence of physical defects and damage, adequate packaging and presentation. Exporters who are capable of providing a reliable supply of products meeting these criteria can become viable trading partners with wholesale and retail distributors in Europe. For SSA businesses, operating as they do in countries lacking the efficient transport, communication and utilities infrastructures of their distant destination markets, meeting these criteria in itself represents a considerable accomplishment. In the 1980s and early 1990s, the market rewarded such efforts with a share of supermarket shelf-space or of a wholesale market stall, without concern for the conditions under which they were produced.

3.2 With the advent of certification, however, the situation has changed dramatically. Non-EU suppliers of fresh agricultural produce, whether ornamental or edible, must now also comply with a range of rigorous certification schemes intended to ensure not only that phytosanitary and hygiene standards are on a par with those applicable to EU farmers, but also that toxic residue levels, and the labor, social and environmental conditions of production are above reproach for each item imported. Each carton must be traceable back to a certified grower. An importer of uncertified produce, or of produce which does not comply with the certification standards, is held accountable for the non-compliance, with the result that the producer, or even the producer country, can be barred from supplying the market.

Certification Schemes

3.3 *Good Agricultural Practice (GAP)*. The most widely recognized certification scheme is EurepGAP, which is operated by a private company. Numerous international certification companies, of which the best known in Africa are SGS and Bureau Veritas, verify compliance through on-farm audits. Production aspects covered by the scheme are:

- traceability;
- record keeping;
- varieties and rootstocks;
- site history and site management;
- soil and substrate management;
- fertilizer usage;
- irrigation;
- crop protection;
- harvesting;
- post-harvest treatments;
waste and pollution management, recycling and reuse;
worker health, safety and welfare;
environmental issues;
complaint form;
internal audit.

3.4 The scheme is governed by a protocol that "defines essential elements for the development of best practices for the global production of horticultural products (e.g., fruits, vegetables, potatoes, salads, cut flowers and nursery stock). It defines the minimum standard acceptable to the leading retail groups in Europe, although standards for some individual retailers and those adopted by some growers may exceed those described." While it does not set out to provide prescriptive guidance on every method of agricultural production, it does aim to minimize adverse environmental impacts and tries to encourage further work to improve growers’ capability in this area. In this respect, the GAP framework, which defines the key elements of current agricultural best practice, wishes to be seen as a benchmark for assessing current practice, and to provide guidance for further development. GAP is a means of incorporating Integrated Pest Management (IPM) and Integrated Crop Management (ICM) practices within the framework of commercial agricultural production.

3.5 Adoption of IPM/ICM is regarded by EUREP members as essential for the long-term improvement and sustainability of agricultural production. EUREP also supports the principles and use of HACCP (Hazard Analysis Critical Control Points) to maintain consumer confidence in fresh produce. It requires that examples of poor practice be eliminated from the industry and that all growers be able to demonstrate their commitment to: a) maintaining consumer confidence in food quality and safety; b) minimizing detrimental environmental impacts, while conserving nature and wildlife; c) reducing the use of agrochemicals; d) improving the efficiency of natural resource use; and e) a responsible attitude towards worker health and safety. Independent verification of adherence to the protocol ensures that the standards are applied in an objective fashion and that members receive impartial advice on how best to achieve and maintain compliance.

3.6 **Food Product Standards.** Our research has identified only the British Retail Consortium standard, but similar schemes are believed to operate in other EU countries. The system was designed to ensure that the highest food production standards are respected in facilities handling products intended for retail distribution, and was funded and promoted by all the major supermarkets in the UK. Clearly, the system’s sponsors felt the need to protect their business from the food scares and adverse publicity that could stem from the sale of sub-standard products. The salient points of the certification system are detailed below, and clearly illustrate its breadth and depth, as well as its far-reaching impact on SSA growers and processors.

3.7 **Flowers.** Certification of flower production is carried out under schemes similar to Eurepgap, such as MPS (Netherlands) and the Flower Label Program (Germany). Equally rigorous, its aim is to protect the industry from adverse publicity regarding the
social and environmental conditions under which flowers are produced. The scandal surrounding Colombian flower production in the 1990’s clearly demonstrated the dangers to both producers and distributors of indiscriminate pesticide use and lax worker safety precautions.

**Harmonized Framework for ACP Codes of Practice for the Horticultural Sector**

3.8 COLEACP, the EU-funded body to promote ACP access to EU fresh produce markets, conducted a series of workshops in East and Southern Africa, West Africa and the Caribbean, to garner support for a single framework that would comply with EU standards while still being adapted to ACP conditions. While such a framework has not yet been adopted, and consultations are in abeyance due to funding difficulties, ACP producers have endorsed the basic criteria, thereby vouching for the relevance of such EU-based schemes to their own environment. These schemes are gaining recognition, not only as necessary prerequisites for access to the profitable EU market, but also as a useful tool for increasing the quality and reliability of production, as well as the efficiency and internal governance of the producer firms and organizations.

3.9 The harmonized framework covers the following aspects of production and processing:

- general requirements (e.g., consultation with customers, continual improvement, periodic review, training, etc.);
- food safety issues (during crop production, harvest and post harvest, facilities, etc.);
- environmental issues (mainly relating to agrochemicals);
- social responsibilities (terms and conditions of labor, worker health and safety, standards of transport and housing, etc.);
- relationships with outgrowers.

3.10 **Maximum Residue Levels (MRLs) of Agricultural Pesticides.** In order to safeguard consumer health and update the 1993 regulations concerning the active ingredients in plant protection products, the European Commission began in 2000 a process of establishing new MRLs for the major agricultural food products distributed in the EU. As many as eight hundred active ingredients are contained in the 8,500+ commercial pesticides currently in use on a variety of crops. So far, MRLs have been set for only 250 ingredients on a variety of crops. If there is no updated MRL available for a particular ingredient/crop combination by 2003, this level will be set at analytical zero and any food product containing a detectable amount of the ingredients will be declared unsafe, the onus of responsibility for its sale being upon the retailer, who will be "named and shamed" by the authorities.

3.11 Agrochemical companies, in conjunction with EU producer organizations such as the UK’s Fresh Produce Consortium (FPC), France’s Centre Technique et Interprofessionnel des Fruits et Légumes (CTIFL), and the pan-European Fresh Produce Association (FPA), are all busy ensuring that their customers, members and affiliates do
not run afoul of these new rules for the economically important EU crops and that new MRLs are set for the main crop/active ingredient combinations before the deadline. However, as the British FPC pointed out early in the exercise, producers of "exotics" (i.e., SSA exporters among others), which operate on a relatively small-scale and are of limited importance to agrochemical companies, have no arrangements for MRLs to be set for their particular crop/active ingredient combinations (e.g., fine beans or Asian vegetables produced under Kenyan growing conditions, or papayas from Cote d'Ivoire). Since importers will bear responsibility for importing products for which MRLs have not been set, they have a vested interest in ensuring that producers cooperate with the EU in seeing that MRLs are set by the deadline.

3.12  The COLEACP Pesticide Initiative Program (PIP). The PIP is the EU’s response to this problem, and provides about €25 million in funding for the following activities:

- continuous dissemination of information on pesticide-related matters, particularly regarding MRL regulations and the use of pesticides in ACP countries;
- conducting trials in tropical regions for the generation of data to support the establishment of MRLs for approved pesticides, reflecting good agricultural practice in fruit and vegetable crops;
- promotion of GAP, through training and dissemination of crop protocols.

3.12 Current PIP activities include:

1. a survey of the requirements of import operators and of the European distribution system, as regards their responsibility for the health and safety of fresh fruits and vegetables, and more specifically regarding traceability and the guarantees to be supplied to demonstrate the absence of excessive pesticide residues.

2. analysis of the relations between the various operators of the horticultural production/export trade in five pilot ACP countries, in order to develop awareness of, and sensitivity to, the needs expressed by private companies and groups of private companies that are economically affected by changes in EU pesticide regulations. The five pilot countries are: Côte d'Ivoire, Senegal, Kenya, Zimbabwe and Jamaica.

3. inquiry into the ‘crop/active substance’ combinations in most urgent need of support vis-à-vis regulatory authorities and pesticide manufacturers, in order to avoid a situation in which producers are unable to comply with the quality standards and health regulations required by markets.

4. review of the strategy to be used to communicate with the various target groups in the ACP/EU horticultural trade, keeping in mind that the Internet is only one medium among others and that the mode of communication best suited to the local context must be defined in collaboration with the beneficiaries;
The PIP team in Brussels is processing the first applications from companies or groups of companies for PIP intervention.

**EU distribution systems**

3.13 During the 1970s and ’80s when -- with the exception of bananas -- SSA’s fresh produce export industry was still in its infancy, the majority of the product was handled by importers installed within the wholesale markets, who in turn supplied the retail markets, including the supermarkets. From the late eighties and increasingly during the nineties, supermarkets gained predominance over wholesale markets, whose market share fell below the 50 percent mark. The current market share of retail sales in the UK and France is as follows:

<table>
<thead>
<tr>
<th></th>
<th>UK</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>Multiples</td>
<td>82%</td>
<td>65%</td>
</tr>
<tr>
<td>Wholesale markets</td>
<td>12%</td>
<td>35%</td>
</tr>
</tbody>
</table>

3.14 Regarding the supermarkets’ share of the total UK market, taking into account the growing food service industry which consumes 32 percent of total fresh produce, most of which is procured on wholesale markets, the multiples’ share of total trade falls to 56 percent and that of wholesale markets rises to 44 percent. The reduction in the wholesale trade seems to be leveling off and FPC projects that the final figures will stabilize at around 60 percent for the multiples and 40 percent for the wholesale markets and food service industry combined.

3.15 The available figures for France do not allow a direct comparison with the UK. On the one hand, the contraction of French wholesale markets is estimated at 3.5 percent per year between 1990 and 1997 (CTIFL, 1998). This trend appears to have slowed, if not stopped, however, due to urban planning procedures that have blocked supermarket expansion. On the other hand, specialized fruit and vegetable outlets controlled 43 percent of all trade in France in 1997, the figure for supermarkets being 41 percent, with the remainder traded direct by producer organizations that appear to operate in competition with wholesale markets. What is clear is that, as outlets for fresh produce, wholesale markets are far more important in France than they are in Britain.

**Consumer preferences**

3.16 The continuous rise in disposable household incomes that has characterized EU member states’ economies over the past two decades has led to sustained growth in the year-round consumption of both traditional and exotic fruits and vegetables, flowers and convenience foods. The growth of supermarket retailing providing easily accessible, affordable, one-stop shopping, backed by effective marketing power, has made new products available and attractive to an expanding pool of consumers, who have developed a taste for an ever-widening range of foods by eating out more and travelling more widely.
3.17 In parallel with such growth, EU consumers demand high quality, healthy produce, which the region’s vast retail organizations compete vigorously to provide. Food scares involving BSE (mad cow disease), foot and mouth disease, contamination with industrial or agricultural chemicals, medically suspect artificial additives in snacks, soft drinks and convenience foods, all reinforce the growing insistence on the purity of fresh and processed foods that GAP and the new EU regulations on MRLs are designed to satisfy. Rising awareness of the social issues behind extra-EU food production, such as working conditions, workers’ health and welfare, and child labor, have also added a new dimension to the concept of product quality, again with consequences for the compliance threshold that producers must meet to gain access to the market.

3.18 The increased demand for organic products is the clearest and most radical expression of this need for high quality. World demand is expected to triple between 2001 and 2008 when the market is estimated to be worth some US$ 80 billion (Fresh Produce Deskbook, UK, 2002). European consumption of organics doubled between 1997-2000 (idem). The relevance of this trend for SSA is not immediately clear, since: a) most SSA exporters are not currently in a position to adopt the rigorous standards of organic production, and thus may not profit from the forecast high growth rates; b) high “food mileage” on SSA products would be a mark against the region’s products among most consumers of organic products, rendering them less attractive than the locally grown seasonal products; c) better pest and soil fertility management under GAP protocols for conventionally grown produce reduces the quality gap between organic and non-organic products, possibly slowing the rates of increase in demand and reducing the price differential and, thus, the incentive for producers to adopt the organic standards.

Competitors of SSA products

3.19 There is keen competition among off-season and tropical suppliers of the EU market for increased market share, and the market has plenty of alternatives to choose from, whether for flowers, fruit or vegetables. The rise of Chile as a temperate fruit supplier to the developed world is a dramatic case in point, as is Kenya’s loss of the zucchini squash market to Morocco in the mid-1990’s. The most relevant examples, though, are Cameroon’s and Cote d’Ivoire’s progress in EU banana supply and Kenya’s phenomenal rise in the EU rose market, pulling with it Zimbabwe, Zambia, Uganda and Tanzania. But unless constant innovation leads to enhanced quality, what is gained can also be lost. Banana production is vulnerable to aggressive Latin American marketing as the quota system is dismantled; avocado, mango and papaya exporters can easily be displaced by Brazilian, Central American or Caribbean suppliers; vanilla can be produced in a wide variety of locations in Latin America and Asia.

3.20 SSA’s current ascendancy in certain areas has to be protected by close attention to market requirements on all fronts; rapid adaptation of production and logistical systems to exploit profitable new opportunities or maintain and upgrade current lines; constant investment in higher quality and yields; and closer integration into the market, either through direct investment in distribution (cf. Kenya’s Homegrown, Chile and RSA marketing arrangements) or through direct marketing agreements with the category
managers that increasingly supply supermarkets on an exclusive basis or, where appropriate, with the supermarkets themselves.
IV. REVIEW OF WEST AND EAST AFRICAN AGRICULTURAL EXPORTS DEVELOPMENT

4.1 Côte d’Ivoire (RCI). Côte d’Ivoire’s banana industry traces its origins back to the European farmers of the pre-war colonial period, when the fruit was exported in bunches. The transition to boxed fruit was made in the 1950’s and 60’s. Given a growing EEC market to which ACP producers enjoyed privileged access, African and European growers on all farm sizes, and involving thousands of production units, proliferated in the coastal areas near the port of Abidjan. As market requirements became more stringent and prices fell under pressure from non-ACP producers, the exporters’ association, now named OCAB, came to exercise its control over a somewhat chaotic supply system, acting as an effective channel for transmitting market signals down the chain. Due to OCAB’s professionalism and the autonomy of action it had acquired through successful negotiation with an otherwise heavy-handed government, producers were grouped by licensed exporters. This facilitated the enforcement of quality standards that found very persuasive expression in the “compte de ventes”, or commission-based, sales system that applies principally in the French market and that RCI still specializes in.

4.2 Although broadly favorable for bananas, production conditions in RCI were by no means ideal. Rainfed but demanding production systems (e.g., polders and “bas fonds”) were common, windstorms were frequent prior to the two rainy seasons, and irrigation was thought unnecessary. The industry’s major competitive advantage was its location on trade routes only some 10 days’ sailing time from Marseilles and Dieppe. Proximity to the port of Abidjan along the country’s expanding network of paved roads was another advantage. In order to maintain market share, it became essential for producers to intensify and expand production: small-scale, rainfed production ceased to be viable. By the 1990s the sector was dominated by large and medium irrigated plantations ranging from 100 to 1,000 hectares, primarily owned by European farmers supplying direct to
French importers, and by vertically integrated corporations such as Compagnie Fruitière and Chiquita and, more recently, ripeners from the south of France, such as Cannavèse.

4.3 Nowadays, the two corporations provide nearly 70 percent of RCI’s banana exports, the rest coming from a handful of medium-sized units, owned with few exceptions by Europeans. Productivity and quality is high, the reputation of the fruit on a wide variety of European markets is good, and production units are modernizing, expanding and innovating as profits are plowed back into the industry. The process is encouraged by generous EU competitiveness subsidies that flow annually into the sector to help prepare ACP producers for the removal of quotas on dollar bananas in 2008.

4.4 The result is a large, dynamic, capital-intensive, demand-driven banana sector with a strong exporters’ association, effective logistical capabilities, hands-off government support, and a supportive trade regime. Ancillary services in agricultural technology, input and equipment supply, and logistics are all well developed. Given such fertile conditions, it is therefore not surprising that other export industries have sprung up.

4.5 As our graphs show, pineapple exports from RCI are significant and expanding, as are mango exports, which are produced by smallholders in the North of the country and also flow into RCI from its landlocked neighbors, Burkina Faso and Mali, for packaging and on-shipment as Ivorian products. The largest and most successful banana producer, Compagnie Fruitière, known in RCI as SCB, also has large pineapple plantations and packing houses, thus maximizing the use of its considerable technological, logistical, input procurement, management and marketing capabilities. Other banana operators, e.g., Chiquita and Eglin, do the same, since the two fruits are complementary from a logistical standpoint and year-round margins on pineapple are higher than on bananas, where they are positive for only a few months of the year.

4.6 Papaya exports to Europe have recently been added to the country’s growing basket of fruit exports, thanks to freight rates of under $1/kg, using the regional airfreight hubs of Abidjan and Yamoussoukro, accessible to many producers along excellent trunk roads.

4.7 Uganda. Economic diversification strategies initiated in the 1990’s have boosted the share of non-traditional agricultural exports from under 10 percent to as much as 47 percent in 2000, registering 10-fold growth between 1990 and 1996. The growth of exports such as roses and fish has offset the loss of Forex earnings on weak coffee, tea and cotton markets, where poor post-harvest quality control has led to decreasing quality premiums for the Ugandan product. By shifting the emphasis of its export sector from agricultural commodities to high-value, more labor-intensive products that entail considerable value-added in post-harvest preparation and packaging, marketing and logistics, Uganda has benefited from increased formal sector employment and the concomitant company- and income-tax revenues.
4.8 USAID has long identified itself with Uganda’s agricultural diversification, which it supports through a variety of instruments such as the agribusiness development center IDEA, support to grass-roots PVOs and the creation of trade facilitation and development projects such as SPEED, COMPETE, and U-Trade. IDEA is the oldest and best-known of these initiatives and has been closely associated with the growth of high-value exports. It appears to have comfortably met or exceeded its goals to increase household incomes through export growth. Between 1995 and 2000, volumes of bean and maize exports to neighboring countries grew by 150 percent to 200 percent, and dollar values of non-traditional exports (e.g., flowers and cuttings, vanilla, cocoa, dried fruits, chilies and spices) increased three-fold to just under $30,000 in 2001\(^5\). While not a direct producer or exporter, the project has accompanied and facilitated the emergence of the NTAE sector through technical assistance in production and post-harvest technology, input supply, logistics, cold storage, grain warehousing development, product certification and market penetration, and financial linkages.

4.9 However, this and other initiatives must deal with major constraints on the sustainable growth of Uganda’s economy\(^6\), including:

- poor infrastructure and support services;
- low skills levels along the entire chain;
- lack of financing for SME development;
- limited vertical integration.

4.10 There is an obvious need to improve the infrastructural and business environment and to develop contacts abroad so that foreign direct investment is attracted and domestic investment encouraged. Dialogue between all stakeholders along the chain –through more effective trade associations, for example – is also essential. The following priority actions have been identified:

- preparation and implementation of a major infrastructure investment plan;
- improvement of the legal and regulatory framework to protect the rights of investors and customers;
- establishment of joint public/private market research and technology development for key products; and
- development of instruments to attract foreign finance and mobilize domestic finance.

4.11 **Kenya.** The following analysis of Kenya's industry is based on numerous interviews with key industry figures, packers and growers during a visit to Nairobi in April 2002. We also draw upon the World Bank’s

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\(^5\) IDEA, Annual Report 2001, prepared by Chemonics, Washington DC.

detailed 1999 study of the development of Kenya’s rose exports\textsuperscript{7}, which relieved us of the need to conduct specific research on that topic. Findings are organized under the following headings: background data; enabling environment (including physical factors), both general and specific to the sub-sector; certification\textsuperscript{8}; costs of compliance; donor aid; constraints; and opportunities.

a) Background data

4.12 Kenya’s fresh produce export industry, now worth some US$ 270 million per year, is a striking example of successful NTAE growth in SSA. This portion of our study is therefore devoted to tracing the root causes of this success and to establishing the extent to which it can be reproduced elsewhere in the region. It was felt that a relatively extensive analysis of the Kenyan experience would also help us define our methodology for the case studies to be undertaken under the next phase of the assessment.

4.13 Firstly, the considerable size of the industry is a major distinguishing factor, as shown in the following table, which is based on local data sources. Over 200,000 ha are under horticultural production, much of which consists of high-value vegetables and flowers, and the total value of its output for the domestic and export markets is well over US$ 500 million.

<table>
<thead>
<tr>
<th>Product</th>
<th>Hectares</th>
<th>Production (t)</th>
<th>Value (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits</td>
<td>136,344</td>
<td>2,062,835</td>
<td>323,669,341</td>
</tr>
<tr>
<td>Vegetables</td>
<td>88,878</td>
<td>1,049,745</td>
<td>170,160,965</td>
</tr>
<tr>
<td>Herbs</td>
<td>609</td>
<td>3,802</td>
<td>320,233</td>
</tr>
<tr>
<td>Cut flowers  \textsuperscript{1}</td>
<td>1,845</td>
<td>295,200</td>
<td>117,234,971</td>
</tr>
</tbody>
</table>


\textsuperscript{8} The watchword of the industry is now, “If you don’t comply, you don’t supply”.
In 1995, horticultural exports accounted for 4.5 percent of agricultural GDP. In 1996, agricultural GDP was 25 percent of GDP, and its contribution to GDP 1 percent. Given the dynamic growth of horticultural exports since then, we can assume that its contribution will also have increased significantly, especially since some vegetable production and virtually all flower production is irrigated, and thus shielded from the severe fluctuations in agricultural GDP experienced by most of its outputs due to the impact of variable rainfall. Employment in the sector is not directly measured, although the KFC estimates that the cut flower business employs between 40,000-50,000 directly and another 60,000 -70,000 in ancillary industries. It has also been estimated that up to 2 million persons are employed in the fresh produce production and export industry.

The following table shows another dimension of the industry’s size, namely, the number of exporting firms and the predominance of a select group of 24 industrial operators that export 72 percent of the country’s total volume. It also shows how only 30 percent of exporters are active year-round, a figure that jibes with the recognized proliferation of “briefcase” exporters who buy uncertified product, often Asian vegetables, from smallholders at low prices when EU market conditions are favorable.

<table>
<thead>
<tr>
<th>Total</th>
<th>227,676</th>
<th>3,411,582</th>
<th>611,385,510</th>
</tr>
</thead>
</table>

1 Estimates: tonnage = ha @ 160t/ha; value = HCDA export figures (US$1=75 Ksh) x 1.2 adjustment for local market consumption.

Source: HCDA, Kenya

9 “Kenya at the crossroads” (2000) wryly comments that Kenya’s economic growth rate = f(price of tea, price of coffee, rainfall). The production and export of irrigated crops helps free the country from such a high-risk dependency.

10 Personal communication, Homegrown, April 2002.
Table 7: Kenyan exporters of fruits, vegetables and flowers, 2001

<table>
<thead>
<tr>
<th>Supplier category</th>
<th>No. of suppliers</th>
<th>% of suppliers</th>
<th>Volume</th>
<th>% of total volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 1,000 tons</td>
<td>24</td>
<td>6.5%</td>
<td>71,403</td>
<td>72.2%</td>
</tr>
<tr>
<td>&gt;400&lt;1,000 tons</td>
<td>18</td>
<td>4.9%</td>
<td>10,307</td>
<td>10.4%</td>
</tr>
<tr>
<td>&gt;200&lt;400 tons</td>
<td>31</td>
<td>8.4%</td>
<td>8,668</td>
<td>8.8%</td>
</tr>
<tr>
<td>&gt;100&lt;200 tons</td>
<td>33</td>
<td>8.9%</td>
<td>4,672</td>
<td>4.7%</td>
</tr>
<tr>
<td>&lt;100 tons</td>
<td>263</td>
<td>71.3%</td>
<td>3,819</td>
<td>3.9%</td>
</tr>
<tr>
<td></td>
<td>369</td>
<td></td>
<td>98,869</td>
<td></td>
</tr>
<tr>
<td>Year-round suppliers</td>
<td>113</td>
<td>30.6%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: HCDA

b) Enabling environment

4.16 General factors in the enabling environment include the following:

- Declining coffee production in the 1970’s spurred farmers’ interest in crop diversification, made possible by the country’s favorable growing conditions for a wide range of crops, especially year-round flower and vegetable production, using low energy inputs and at lower costs than destination market producers.

- Good agricultural land was available in the highlands for freehold and leasehold by private companies and individuals.

- At least 80 percent of the production areas with ideal growing conditions are located within 100k (via paved road) of the international airport.

- Freight connections are good between Nairobi, East Africa’s regional hub, and Europe. These were further enhanced by the availability of cheaper freight (return dead freight) during the relief operations in Sudan and Ethiopia in the early to mid-1990s.

- There is an open skies policy, large exporters are willing to establish wholly-owned freight forwarding companies that hold forward contracts with freight carriers, and may charter planes in their own name.

- The business has been driven by the private sector with very little governmental interference. Indeed, the government has helped by zero-rating duties and taxes on inputs and outputs and by liberating foreign exchange markets. The sector is self-regulating and works in harmony with the public sector through strong trade associations such as FPEAK and KFC, as well as HCDA, which have promoted the introduction of codes of practice that comply with changing EURO requirements.
The existence of a) an efficient, privately-funded plant health organization (Kenya Plant Health Inspection Service, KPHIS) and active help from the Kenya Agricultural Research Institute (KARI), the Horticultural Crops Development Authority (HCDA), and from the Export Promotion Council (EPC); b) a well-trained work-force backed by technical colleges and degree programs; c) an efficient subsidiary industry providing inputs and services to the industry.

The foreign exchange controls in place in the 1970s gave businesspeople an incentive to find ways of generating foreign exchange revenues. Once the controls were removed in 1993, the sector received a further boost.

A benign tax regime: Exemption from import duties on machinery and inputs and the refunding of taxes on all inputs; Simple company tax regime of 35 percent.

The existence of a large private entrepreneurial sector with a strong business culture and an ethos of hard work and commitment, as well as close links between the Asian communities of Kenya and the UK, which have facilitated the discovery of attractive prices in Europe for the fresh produce that Kenya is in a position to supply.

There is close coordination with UK supermarkets, and exporters have been able to keep pace with their demands for quality, safety, environmental friendliness and ethical codes of practice.

Large companies have grown up as a result of progressive business strategies such as vertical integration along the entire chain from farm to market and consistent adherence to principles of effective management and good governance, exercised equally in the areas of production, airfreight and logistics, and marketing.

The reliable cash-flow generated from trade with large marketing organizations such as the UK supermarkets has given them access to low-interest loans from international banks represented in Nairobi to fund their rapid expansion and diversification in line with market needs.

4.17 Vegetable sub-sector. The transition of UK supermarket demand from 3 kg bulk packs to pre-processed fully packaged high-care supermarket- and consumer-ready products has led to expansion of the product range to include high-care facilities. UK multiples tend to hand off to their suppliers as many value-adding functions as possible, in order to concentrate on their core business of profitable retailing.

4.18 High-value pre-pack units maintain standards of hygiene, equipment, infrastructure and efficiency that are on a par with those in UK facilities at a fraction of the F.O.B. cost. The leading Kenyan operators also maintain quality
assurance and management procedures that set a standard for other Kenyan producers to emulate, and many now resemble catering organizations rather than primary producers. Large vegetable processors insist that all produce conform to written internal codes of practice that were introduced as early as 1991.

4.19 **Flower sub-sector.** Early and rapid growth of flower exports (chrysanthemum, statis and spray carnations) was followed by rose production as competition with Morocco and Spain forced Kenya to specialize in alternatives with greater comparative advantage.

4.20 Rising labor costs in the competing countries of Israel, Spain and Turkey consolidated Kenya’s comparative advantage. During the 1990s roses became the most important product and accounted for 28,000 - 30,000 t (out of a total of 41,000 t) in 2001. Nonetheless, large-headed roses from Ecuador gave Kenya stiff competition in the EU and especially in Russia (during its boom years). Zimbabwe, Zambia and Uganda also entered the picture, though Uganda’s efforts with "fast reds" yielded poor results due to high temperatures and humidity.

4.21 Good relations with the target market also pay off. Given the high profile of the flower industry and its vulnerability to attack from human rights and environmental organizations, as well as its need to remain fully aware of official policies, KFC retains the services of a public relations firm in London, which organizes their Kenyan Flower Days in London and Almeer.

4.22 Successful companies pay close attention to market requirements, and believe in constant exchange of views and information between customers and suppliers. The growing demand for bouquets as against bulk orders is a case in point.

    **c) Certification**

4.23 Kenya has developed codes of practice for the production, processing and packaging of fresh produce that are being adopted by the Kenya Bureau of Standards and by the National Standards Council. These codes mirror those applied in their destination markets and are audited by Bureau Veritas in the case of the Kenya Flower Council (KFC) and by SGS in the case of FPEAK (Fresh Produce Exporters Association). In order to command premium prices at the Dutch flower auctions, KFC members are applying for recognition by the auditing firm NPS, which is analogous to Eurepgap, but deals specifically with flowers at present. While there are currently no MRLs for flowers, as there are for food

11 Nonetheless, a training institute and varietal trials have been set up through USAID’s IDEA project and with Dutch aid and investment.
products, highly toxic products such as methyl bromide must be phased out to safeguard the workforce and avoid introducing into Europe pests that have developed resistance to milder, more environmentally friendly pesticides. Social accountability has also been incorporated into the Kenyan codes (in the form of ‘SA 8000’ accreditation) and firms are encouraged to ensure that employees are fully involved in the codes’ application in the workplace.

4.24 The fresh produce industry works closely with the Kenyan Plant Health Inspection Service (KPHIS) that conducts pesticide tests and certifies products for use in the country. Kenya's pesticide code mirrors that of the EURO and works with COLEACP Pesticide Initiative Program to develop MRLs for relevant crop/product combinations.

4.25 There is strong emphasis on full compliance by Kenyan producers. The Flower Label Program is being initiated by the German Flower Association, which has introduced a new code of practice in conjunction with KFC, starting with a pre-audit and, on the basis of recommendations, a full audit that will allow certified growers to use the label, thus staying abreast of the competition and rendering their own companies more efficient and profitable.

d) Costs of compliance

4.26 A recent study of the flower industry by the UK Natural Resources Institute on behalf of the Department for International Development (DFID)\textsuperscript{12} yielded the following key findings:

- Kenya has one of the most codified flower industries in the world. Social and environmental code compliance is now encouraged by European buyers, Kenya’s conservation movement and the flower industry itself. Large growers currently comply with at least three different codes, which tend to differ more in emphasis than content.

- Compliance with new codes of practice holds little fear for the more progressive flower growers. The prevalence of social and environmental codes within the industry is such that the standards they contain have become internalized and represent industry entry requirements for serious new growers.

- The KFC has yet to prescribe a minimum living wage for its members’ workers. KFC audits concentrate instead on ensuring that employers pay at least the legislated minimum wage and make the correct payments into national social security funds. The great majority of members were already compliant in these respects; therefore, KFC compliance in most cases does not increase costs of employing workers.

\textsuperscript{12}“The Business Costs of Ethical Supply Chain Management: Kenyan Flower Industry Case Study”, Chris Collinson, Natural Resources Institute, May 2001.
Based on the small sample of companies studied in this research, it appears that compliance costs have an inverse relationship to company size, especially when expressed as a percentage of annual turnover. However, even in the worst case, compliance costs are affordable.

Management time required to plan, implement and maintain compliance represents one of the biggest compliance costs that KFC members bear.

The largest non-managerial KFC compliance costs fall into the “Agrochemicals – Pesticides and Fertilizer” category. Improvements to chemical stores, worker safety during and after pesticide application and chemical disposal account for most of these costs.

The KFC does more than just audit for compliance with its code of practice. It also helps to spread best procedural and managerial practice within the industry, thereby helping members to reduce their costs. This benefit is well recognized among the KFC members.

4.27 Two further benefits from code compliance that are non-KFC specific are: improved worker health, leading to greater worker productivity and lower medical bills; and the promotion of long-term business viability through environmental sustainability.

4.28 These conclusions indicate that compliance, once achieved, is affordable. Awareness of the importance of compliance and the effectiveness of grower/exporter organizations to ensure that codes are understood, adopted and monitored by their members are key factors in Kenya’s success, that other exporters will need to emulate if they are to survive in the EU marketplace.

4.29 Growth of this capital-intensive industry was assisted by European Investment Bank (EIB) loans, on-lent through local banks at competitive interest rates. (Even with this support, however, storm damage to greenhouses and field crops of Arabica and statis during the El Nino and La Nina years of 1997 and 1998 caused distress in smaller, weaker operations.) Technical assistance and market promotion were also available (e.g., USAID’s Export Development Fund, a five-year program that ended in 1999).

The Kenyan Export Promotion Council (EPC) acted as a channel for donor assistance for attendance at, and organization of, exhibitions and trade fairs. The EPC has received EU assistance in packaging, codes of practice, market development and trade facilities, and USAID also supported FPEAK. Between 1991 and 1994-5, the World Bank operated the Kenya Exporter Assistance Scheme (with the help of Irish investment) that provided assistance for up to 50
percent of the cost of market prospecting visits. JICA also provides support to the Information Center to improve access to the Japanese market, which is currently poor.

- Integrated pest management is also supported by DFID.

- The privately-funded Horticultural Crops Development Authority (HCDA), owes its existence to FAO activities between 1967 and 1982, in the form of technical assistance and financial support. HCDA has also received support from COLEACP, GTZ (a horticulture marketing project), USAID (trade missions and exhibitions), DFID (pesticide technology for small flower growers) and EIB.

- During the 1990s, COLEACP financed the participation of flower growers and exporters in trade missions that have helped them break into direct market sales, where margins are better than at auctions and consignment sales.

- The European Business Assistance Scheme (EBAS) provides flower producers with a contribution, equivalent to 50 percent of the total, towards the cost of customized information technology solutions and associated training for a management information system.

- The Netherlands-based African Management Service Company (AMSCO), partly funded by UNDP, subsidizes the cost of expatriate technical assistance in production and management.

- The EU’s CDE also provides managerial technical assistance.

f) Constraints

4.31 Constraints of a general nature include the following:

- Although the Kenya government has been supportive in the past, reducing or eliminating tariffs and taxes, there is now a movement afoot to increase taxes on flowers and vegetables, which industry organizations are resisting.

- The value of the Kenyan Shilling (Ksh) is slightly inflated due to excess liquidity caused by inflows from unstable neighbors such as Congo, Burundi, Rwanda and Sudan, which enjoy free exchange facilities for their local currencies.

- Rural credit schemes have not targeted smallholder horticulture, in which small, isolated growers work on short cropping cycles, selling to exporters at a disadvantage.
Disbursement of donor funds through private banks is low due to lack of organization in the smallholder sector, where farmers operate alone. For example, the Kenya Rural Enterprise Program (K-REP) works only with organized groups, and not with individuals.

Insurance coverage for farm production is lacking, despite the scope and significance of the export industry.

4.32 Constraints specific to Kenya’s vegetable sub-sector:

The vegetable export industry is becoming increasingly regulated and competitive. It operates at net margins of around 3-4 percent, which forces out smaller companies, many of which are closing. Industry informants estimate that the present shake-out due to European regulations will eventually leave only 20 or 30 viable operations.

Three quarters of Kenya’s vegetable production (for the domestic market as well as export) is done by smallholders with between 0.5 and 4 ha of rainfed land, using traditional, often subsistence-level technology without access to credit. Their production is collected by middlemen supplying exporters directly or through other middlemen. Except for government extension agents, they lack technical assistance and cannot provide traceability, which means that up to 50 percent of their crop is rejected by exporters because of insufficient quality. Their lack of access to cold stores in the production area forces them to sell at the buyers’ price. Exporters have rejected government proposals for cooperatively-owned cold store schemes to protect growers from predatory buyers, who can get crops virtually free in times of oversupply.

The 12,500 t of green beans exported by Homegrown each year provides little or no direct margin to the large growers but makes a significant contribution to company overhead costs. The reduction of purchase prices paid to farmers is therefore an essential part of its business. Homegrown regulates the large, oversupplied outgrower market through strict enforcement of compliance with their code of practice, employing 40 full-time field staff operating in a buyer’s market and paying as little as possible for the product.

Lone outgrowers are victims of intermediaries, briefcase traders who beat farmgate prices down, especially in Asian vegetables. Due to oversupply, farmers often have to wait for their produce to be purchased and do not always get paid since crops may be rejected at the packing house or off-loaded at the airport. Hence, the poverty reduction impact of smallholder horticulture is very low.

The main exporters pay very low farmgate prices for fresh vegetables, rejecting as much as 70-80 percent of what they buy from smallholders,
who act as a buffer for supply shortfalls in this high-precision industry, where the production system has to be structured to fit market needs.

There is a trend in the industry towards reducing the number of smallholders: Homegrown has already restructured its outgrowers, reducing their numbers from 3,000 - 5,000 to the current 900.

Very little effort is deployed by the industry, government or donors to address the high attrition rate in the industry that will result from increasing regulation in the EU.

4.33 Constraints affecting Kenya’s flower industry:

Faced with the growing predominance of large growers, smaller growers trying to expand production are constrained by the high cost of fresh capital available from local banks and the IFC, where interest rates are higher than those offered by international banks to European competitors starting up or extending their operations in Kenya. Such competitors tend to get financing directly from Europe, and produce high quality product at high yields, thus crowding out smaller, less efficient growers. This has led to oversupply of their lower-grade products and, thus, to low prices. While some smaller growers may be able to compete where product quality and marketing are concerned, they cannot compete in the area of production costs. Eighty percent of the smaller growers who have obtained local finance have over-borrowed and face closure unless they are able to access low-cost EIB and PROPARCO loans featuring longer terms and initial grace periods.

The Kenyan flower industry is also hampered by poor road infrastructure; expensive air freight (due to the low density of the product); high costs of imported inputs and technology; and the lack of Kenyan technology institutions to carry out varietal trials, which increases dependency on specialists from Israel and the Netherlands and the costs of compliance with increasingly stringent EU regulations (vis. the problem with tobacco white fly in roses). Profits (and growers’ bank deposits) have declined over the past three years as oversupply affects the market, in part due to increasing exports from Uganda and from Arusha (in Tanzania) via Nairobi.

The need to expand existing businesses to achieve high capacity means that there will be very few new entrants in the industry. Some Dutch and Israeli flower growers are coming in and investing heavily: one Dutch grower supported by Rabobank already has 20 percent of the national export rose crop, with 350 - 400 million stems per year.

4.34 Constraints affecting Kenyan fruit exports:
Export production of mangoes and avocados, plus some custard apple and passion fruit, is mostly small-scale and rain fed, although Del Monte produces pineapples for canning on formal plantations. Demand is seasonal and exports of mangoes (by air to the Middle East) and avocados (by sea, mainly to France) are operated by packers who buy from middlemen collecting from thousands of small growers.

**g) Opportunities for Kenya**

4.35 An IFAD-supported project, REAP, operated by CARE Kenya helps smallholders organize themselves into compact production units of 40-60 acres of leased land, with group purchasing of inputs on credit and contracts with exporters such as the high-care company Vegpro and East African Growers. This helps eliminate the risks and costs faced by individual freelance smallholders. Planting programs are established by the unit’s technical management and GAP and accreditation become possible. There are currently five such units in the Makueni district generating gross margins of US$150,000 - $200,000 each; CARE sees a potential for 70 to 100 units. Family income can grow from $150/ha for individual producers to US$1,000 under REAP thanks to:

- formal marketing contracts;
- the legal status of the groups;
- private sector linkages for input supply;
- access to technology.

4.36 Bouquets are the coming trend in flower exports as UK supermarkets increase their demand for shelf-ready products. High-care vegetable companies with experience in supermarket requirements are well-placed to profit from this trend.

4.37 The mango export trade has tapered off, with most of the fruit now going to Middle Eastern countries, but avocados by sea to the EURO have grown, since few competitors can supply the market during the March-April period before South African avocados arrive.
Small and medium-sized firms feel the need for better market knowledge, technical assistance and training in production, IPM, biological pest control, post-harvest technology, and EU compliance. Firms in this category tend to commit expensive errors that affect their survival.
4.38 Technical assistance to NTAE development. Of the international donor agencies, USAID has been the most active in support of agribusiness and has conducted several reviews of the performance of the strategies and approaches adopted, incorporating lessons learned from its world-wide experience into its program designs. Two such studies are well worth citing at length. The first, "Generating Broad-Based Growth Through Agribusiness Promotion: Assessment of USAID Experience" is by the Center for Development Information and Evaluation. The second, published in 1997, is an assessment of SSA experience in the same field.

4.39 Global assessment. The broader, earlier study explains that, in order to promote sustainable agricultural development, USAID began in the early 1980s to focus on the development of private agribusiness. It designed and implemented hundreds of interventions aimed exclusively or significantly at developing agribusiness in Africa, Asia, Latin America, and the Caribbean. These programs provided direct assistance to existing and potential firms and entrepreneurs, promoted policy and regulatory reforms, helped build and strengthen private and public institutions favorable to agribusiness, and facilitated privatization of parastatals supplying fertilizer. They usually succeeded in promoting the emergence and growth of agribusiness enterprises, not only by supplying farmers with agricultural inputs but also by helping them process and market high-value cash crops, especially for export. Most of the seven country programs performed satisfactorily. Two (in Bangladesh and Guatemala) performed very well and three (in Cameroon, Ecuador, and Thailand) did reasonably well. The remaining two (Sri Lanka and Uganda) were still struggling at the time of the assessment.

4.40 Programs to privatize fertilizer distribution succeeded beyond expectations. Most of the programs aimed at promoting NTAEs not only increased such exports, but also

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helped create a business climate conducive to private sector growth. Especially successful were programs that boosted the growth of small and medium-size private agribusiness firms (which especially needed help with production technology and in developing export links with foreign importers).

4.41 Less successful were programs promoting marketing cooperatives. These had high operating costs, a habit of depending on government and donor assistance, and sluggish responsiveness to opportunities. While agribusiness programs did not attract significant foreign direct investment, they did facilitate collaborative arrangements between American firms and local entrepreneurs. Such arrangements involved raw-material sourcing, production technology, shipping, and export marketing. Efforts to create government organizations offering support services to agribusiness firms also fell short, but efforts to promote membership-based private organizations of agricultural producers, processors, and exporters did succeed. These organizations emerged as powerful voices to articulate their members’ interests and to press for regulatory reform. They could provide standard services to members, but not customized assistance requiring firm- or product-specific expertise.

4.42 Agribusiness programs had significant effects on employment and income generation in most countries. Small farmers benefited greatly from agribusiness programs. In practically all host countries with a focus on non-traditional exports, contract farming spread rapidly, generating unprecedented opportunities for small farmers. Contract farming gave farmers access to national and foreign markets as well as to production technology. Although women benefited from the growth of agribusiness, they did not benefit fully and equally from firm ownership.
V. FACTORS DETERMINING SUCCESS IN NTAE DEVELOPMENT

5.1 The main lessons learned by USAID from the previously described programs were as follows:

- Agribusiness programs should focus primarily on improving a country’s policy, regulatory, and institutional environment, while assistance to individual enterprises should be secondary.
- USAID missions should take the time to formulate a realistic, coherent, but flexible long-term strategy before initiating agribusiness interventions in a country, and agribusiness development programs should follow the private sector’s lead, instead of taking the lead.
- USAID should continue to design interventions geared to small and medium-size firms (focusing on transfer of production technology and developing export market links).
- Contract-farming arrangements should continue to be explored.
- USAID should promote entrepreneurship among women. Interventions should support cooperatives only when they demonstrate the will and ability to conform to the discipline of the marketplace.
- Sunset clauses (i.e., the imposition of a finite term on assistance) should be built into all agribusiness assistance.

5.2 NTAE in Sub-Saharan Africa: the USAID experience. An assessment focusing specifically on SSA was carried out a few years later, to measure the impact of USAID’s 1991 “Strategic Framework for Promoting Agricultural Marketing and Agribusiness Development in Sub-Saharan Africa”, used as handbook by the agency’s policy units and field missions.15

5.3 The framework suggested that: (a) while technical and environmental problems must continue to be addressed, a major cause of poor performance of the agricultural sector has been the inefficiency of market structures and strategies; (b) improvements in marketing efficiency require a good understanding of the structural arrangements, organization and operating strategies available to those entrepreneurs who constitute the majority of the business entities; (c) such improvements could have a significant beneficial impact on incomes, foreign exchange earnings, domestic consumption and food security.

5.4 In its search for innovative agricultural marketing and agribusiness programs, USAID commissioned Abt Associates in 1995 to synthesize a cogent set of lessons learned and their implications for USAID agribusiness project design and implementation. The conclusions of that assessment, published in 1997, are summarized below:
5.5 **General principles.** With regard to markets, there is significant potential for NTAE development in developed countries (primarily the EU), second tier countries (e.g., Singapore and the Middle East), and regional markets, which are currently being developed successfully by SSA-based firms. While developed country markets are very competitive, some of the other markets are less complex and therefore more accessible to smaller firms. NTAE promotion also represents an opportunity for donors to stimulate broad-based economic development and increase the access of the indigenous population to the commercial economy, since indigenous smallholders and SMEs can participate successfully under the right conditions.

5.6 The major constraints to NTAE development in the countries studied are:

- the shortage of working capital (caused by a lack of entrepreneurial equity/collateral and very few sources of trade finance);
- poor infrastructure (especially roads, airports, and communications); and
- poor organization (the lack of a clear understanding of the highest priority opportunities —products and markets—and the optimal strategies and structures for capitalizing on these opportunities).

5.7 NTAE promotion and technical assistance for upgrading production and export marketing management will not by themselves result in NTAE success, since lack of financing will still be a constraint. Therefore, there is a need for an institution that offers integrated services (e.g., finance, technical assistance, management) and is “networked” into the local industry (i.e., has the support of the larger exporting firms).

5.8 The two major enabling environment components that the study identifies are:

- transportation, both domestic roads and ports/airports as well as freight rates, especially air freight, which can account for up to 30–40 percent of the landed price; and
- optimization and proper enforcement of customs activities, including quick clearance of outbound goods and low/no duties on imported raw materials that are re-exported.

**Recommendations**

5.9 The study generated the following recommendations for designing NTAE development projects:

1) **Establish project design and implementation alliances to increase USAID’s “bang for the buck”,** particularly through multi-donor projects, partnerships with selected NGOs/PVOs, cooperation with appropriate government entities (e.g., development banks and export promotion agencies), and close collaboration with relevant private sector firms or organizations.
2) **Increase the involvement of successful private sector managers in project design and implementation** by encouraging ongoing private sector development and project advisory committees, periodic project review meetings with key private sector representatives, and other similar arrangements.

3) **Enhance the sustainability of interventions by placing heavy emphasis on local capacity-building during project implementation**, by developing: viable trade associations; pragmatic and highly practical local technical and managerial assistance and consulting capabilities; networks that tap into international technical, marketing, and managerial support; financial service providers that understand business and know how to use references as an important basis for loan screening; group lending schemes with a significant savings component; and training institutions that provide useful, highly applicable, and commercially focused training and management courses, especially in the areas of operational capability enhancement, business strategy and planning, financial management, bookkeeping, cost control, and marketing.

4) **Identify and focus on high-opportunity subsectors.** This should be based on formal assessments and include the identification of medium-sized firms with some experience in the selected subsectors. Medium-sized firms represent the best opportunity for positive impacts on employment, exports and agribusiness development. Firms already possessing some experience are much easier to take to the next level.

5) **Implement cost/benefit-focused monitoring and evaluation of projects.** This should be applied down to the level of individual project components. The analysis should include: qualitative input from interested parties and beneficiaries (e.g., member/client satisfaction measurement); assessment of the progress of assisted firms; evaluation of the project’s impact at the macro level.

6) **Establish a feedback system for all ongoing agribusiness projects and activities.** This would facilitate dissemination, throughout USAID and the agribusiness development community, of lessons learned and implications and could take the form of an on-line bulletin board with monthly reports on specific projects, and a data bank, perhaps on-line, where current project reports, evaluations, and impact assessments are maintained and available.

7) **Each USAID-funded activity and project should have a standard requirement to identify and report success stories.**

**USAID Case Studies**
5.10  **Egypt** has a broad-based and highly diversified horticultural industry mainly supplying its domestic market: only 2.5 percent of the country’s horticultural production is exported. In 1997, USAID implemented an export horticulture promotion project called the Agricultural Technology Utilization and Transfer Project (ATUT). The project focused exclusively on improving exports of grape, strawberry, melon, mango, green bean and cut flowers to the regional and EU markets. It provided hands-on expatriate-led technical assistance and training to a group of 100 exporters, who accounted for 80-100 percent of exports of the selected products. Assistance was in the following areas:

- management throughout the production and marketing chain;
- access to and use of new cultivars that were disease resistant, met taste preferences in importer countries and better suited to market windows;
- labor management in production and post-harvest;
- water/irrigation management;
- farming practices; and
- cold chain and logistics.

5.11  The project’s final evaluation in 2001 found the results to have been as follows:

- Grape exports tripled in 3 years;
- Strawberry and galia exports doubled;
- Mango exports declined due to competition with other suppliers; and
- Green bean exports increased by 30 percent.

5.12  Though the dollar value was unchanged due to depreciation of the Euro, foreign currency earnings increased, employment increased by 8,000 jobs (of which 5,500 for women) in production / processing, and 22,000 jobs were created indirectly. Quality assurance and compliance with market requirements improved, thus safeguarding market share, and transport costs were reduced by US$1.7 million for grapes alone. As many as 100,000 small- and medium-scale farmers were exposed to new production techniques, with significant adoption rates. Female packing-house workers were trained to take on supervisory and management roles. There was useful institutional strengthening of the Horticultural Export Improvement Association. The project was declared an overall success.

5.13  **Mali** has also been the object of USAID attention\(^{16}\), through a series of livestock, policy and high-value initiatives in the 1980s-90s, culminating in the **Sustainable Economic Growth Project** that focussed on private-sector agribusiness development in all agricultural sectors except sugar, dairy and cotton.  

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\(^{16}\) …and also that of the World Bank, in its APROFA and APEP investments, precursors of the latest USAID agribusiness promotion effort.
has few of the natural resource endowments of Egypt or of its coastal neighbors, nor does it possess a particularly open trading environment. Logistical constraints, whether for overland transit to seaports or air transport direct to Europe, as well as the high cost of imports, severely hampered world market export growth in green beans and mangoes, the only products in which some competitive advantage in terms of seasonality and quality could be exploited. The country lacked a committed and credible cadre of fresh produce entrepreneurs, and few businessmen from other sectors with the necessary managerial and financial resources could be enticed to invest in such unfamiliar ventures. In addition, short-term bank finance was unavailable for raw material purchase and operating costs, sales were on commission and investment capital was also scarce.

5.14 While the project possessed ample technical resources and market knowledge, which were made abundantly available to the few exporters in the sector, little could be accomplished due to the dearth of investment. Consequently, efforts were focussed on: a) resolving the sector-wide financial constraints, principally through the establishment of a loan guarantee fund of some US$ 4 million at two local private banks; and b) improving the quality of livestock, rice, maize, potatoes and onions supplied to the domestic and sub-regional markets. It is in these areas that the project was able to increase the value-added along each commodity chain by improving market contacts and knowledge, production and storage techniques, and the facilities for storage, packaging, processing and marketing. It also lent considerable support to trade facilitation and other policy initiatives to improve the transparency of cross-border transactions. The high-value, high-profile activities of EU market exports were too risky and capital intensive to be sustainable. On the other hand, the new processing and marketing techniques introduced by the project, and some of the trade facilitation initiatives, appear to have taken root and are being adopted successfully by the sub-sectors concerned.

5.15 A lesson that USAID may well draw from the exercise (which is on-going) may well be that in such isolated and resource-poor environments, it may well be more cost effective to emphasize value-adding linkages to regional and domestic markets, rather than costly and less sustainable international market products, however high-profile they may appear.
5.16  **Guatemala**, according to an assessment carried out by USAID in 1994\(^\text{17}\), has had some success in promoting NTAEs. USAID’s goal was to raise the incomes of small farmers in the Guatemalan highlands by encouraging them to switch from traditional crops of corn and beans to higher value, more land- and labor-intensive crops. From 1978 to 1993, USAID contributed more than $70 million to the region’s agricultural development. Its assistance focused on strengthening cooperatives as credit agencies and marketing intermediaries, developing enterprises, building mini-irrigation and rural infrastructures, providing technical assistance, and promoting agricultural research and extension.

5.17  USAID's agricultural development strategy became more effective over time as lessons were learned from its implementation experience. The initial USAID project financed construction of regional agricultural marketing facilities. This infrastructure was expected to stimulate increased vegetable production by small farmers by reducing marketing margins between the farmgate and urban centers, partly by reducing spoilage. Existing marketing channels proved to be much more efficient than USAID anticipated, however, and the one USAID-financed facility that was actually completed went bankrupt.

5.18  A second early project encouraged construction of agribusiness processing facilities by newly-formed smallholder cooperatives. Many of these cooperatives were unable to manage the intricacies of simultaneously promoting new crops and developing marketing capabilities. From the mid-1980s, USAID reduced its reliance on interventions for specific agribusiness enterprises (usually cooperatives) and shifted to activities that together would develop agribusiness as a system. The creation of agricultural export trade associations, such as the Non-traditional Exporters' Guild and PROEXAG (a regional USAID promotion organization), was the most effective mechanism for developing such a system. These organizations concentrated on linking U.S. importers and private Guatemalan agribusinesses and exporters, and on developing links between them and the small producers, either individually or organized into cooperatives or other farmer groups. This approach helped create a strong, dynamic agribusiness sector by creating opportunities for many interdependent firms. An approach geared to assisting individual firms would have been less effective.

5.19  Although the results of some of the activities were disappointing, USAID was successful overall. NTAEs climbed from less than $1 million in 1975 to $105 million by 1992. In addition, 20 percent of the income derived from NTAEs went to the poorest 25 percent of Guatemalans -- a dramatic improvement over their 3 percent share of GNP. As many as 35,000 new jobs were created, distributed evenly between men and women, and the incomes of both men and women increased.

5.20  **Philippines.** In 1996 a USAID contractor, Chemonics International, Inc., carried out an assessment of the Philippine Agribusiness Systems Assistance Program (ASAP)\(^\text{18}\), and concluded its own end-of-project report with a list of the technical assistance activities it deemed necessary for NTAE development:

- **Production support**, including the introduction of, and technical support for, new flower, fruit, and vegetable crops and the use of new livestock breeding technologies, services no longer available from government sources and absent in the private sector.
- **Adaptive research and extension** regarding new, high-yielding imported varieties and improved genetic material.
- **Provision of reliable information** to Filipino agriculturalists and associations on the Philippines and other fast-growing Asian markets.
- **Market matching services** between producers and marketers/processors. ASAP area marketing advisors help producers to transact more than $19 million worth of business. Technical assistance in production was also a key factor. Several former area marketing advisors continue to use the expertise they gained on ASAP in their work as private consultants with local companies.
- **A cautious approach to joint venture development**, which was not particularly successful due to the excessive scale of production required to support processing ventures.
- **Support to associations**, which were the most effective means of delivering project services. The project’s spillover effects, due to its training and technical assistance to producer associations, included an extremely high number of beneficiaries assisted. Project-sponsored activities also helped strengthen the associations by enabling them to use technical workshops and sessions to raise funds by charging fees to their membership.
- **Support to coalitions of associations and other interest groups**, in order to address constraints in the agribusiness system. Such associations proved effective in advocating policy changes and helping firms respond to market opportunities.
- **Effective policy analysis** was provided by a team within the Department of Agriculture (Policy and Planning Division), providing the analytical information required by agriculture policy makers in the Philippine government. Efforts to incorporate this expertise into independent associations and other advocacy groups were less successful, since they lacked the resources to hire manpower. Independent associations and organizations interested in liberalizing the agriculture sector should continue to be supported through grants and contracts, since they are unlikely to be able to pay for this expertise in the foreseeable future.

5.21 Sri Lanka. USAID reviewed its support of agribusiness development in Sri Lanka in 1995\(^\text{19}\). The program consisted of three major projects and two small co-financing projects that, either directly or indirectly, promote the growth and expansion of the agribusiness sector. Two of the major projects focused only on the Mahaweli region, a massive irrigation resettlement scheme involving more than 60,000 families. The agribusiness program provided technical assistance to agribusiness firms and farmers producing high-value cash crops. It also helped strengthen public and private sector institutions that regulate agriculture or provide support services, and fostered links between local entrepreneurs and international firms.

5.22 While the multifaceted approach was considered both timely and relevant, the overall performance of the program so far has been uneven. Some progress was made in promoting micro- and medium-size agribusiness enterprises; farmer organizations assumed a wider variety of agribusiness functions; and, to a limited extent, non-traditional agricultural exports by large national firms have increased. The promotion of commercial farming in Mahaweli was disappointing, as were most efforts at generating significant agroprocessing. Nor was the project successful in attracting direct investment by international firms.

5.23 However, the program succeeded in generating employment and income in rural areas. It helped increase farm income, employment and farm wages in high-value, labor-intensive cash crops, such as gherkins, an export crop. Women also achieved greater economic independence, in turn improving their families’ living standards.

5.24 The program’s most important accomplishment has been a change in the attitude of elites towards the growth of private sector agribusiness. Staff have worked to change the attitudes of decision-makers and national planners through policy dialogue, workshops, and training sessions, but their efforts would not have succeeded without simultaneous progress in Sri Lanka’s overall policy environment.

5.25 The lessons of the Sri Lankan experience are the following:

1. It is more realistic to promote limited sourcing, technology transfer, and marketing arrangements between international firms and local entrepreneurs than to attract direct foreign investments by international firms. Attempts to induce international firms to invest in the processing and marketing of Sri Lanka’s NTAEs failed partly because such firms are highly sensitive to a country’s economic and political stability. More importantly, they usually prefer to grow high-value crops on large farms to ensure a steady supply and economies of scale. Foreign (corporate) ownership of large farms is not politically acceptable in Sri Lanka, however. Moreover, the country lacks the institutional and physical infrastructure that international agribusiness firms need for farming, processing and marketing. As a result, international firms did not invest in Sri Lanka’s agribusiness sector despite its advantages: low wages, high literacy, proximity to rich and growing Asian markets, and greater proximity to Europe than East Asia enjoys.

2. Contract farming emerged as an effective, and mutually beneficial, way to link small-scale gherkin farmers with agribusiness firms that process and export high-value agricultural exports, providing small farmers with both essential inputs and a market and agribusiness firms with a steady supply of agricultural commodities at predetermined prices. The farmers' high literacy rates, careful government monitoring, and the increasing involvement of farmer organizations and PVOs have helped safeguard farmers' interests.

3. Project designers should study the role micro-enterprises can play in stimulating and expanding the agribusiness sector, particularly in underdeveloped regions. In Sri Lanka, micro-enterprises involved in agricultural input supply, processing, and marketing have grown both in number and in size, generating more job opportunities. These micro-enterprises, which cater mainly to domestic markets, could use program assistance, especially in credit, marketing advice, and management training.

4. The agribusiness program also benefits landless laborers and does not necessarily favor large landowners at the expense of small farmers, provided that safeguards exist to protect the latter’s interests.

5. Program designers should consider how the growth of agribusiness will affect women, paying special attention to women's ownership of agribusiness enterprises. The cultivation of high-value export crops, especially the gherkin, has had mixed effects on women. Although women's workload has increased, their incomes and standard of living have improved. Except for micro-enterprises, however, women-owned agribusinesses are practically nonexistent. More attention to women's issues is therefore needed in agribusiness programs.

6. In economies with undeveloped domestic markets for commercial crops or value-added processing, agribusiness programs should specifically address infrastructure constraints such as transport and communications and the weakness
of the internal market. For example, the country imports large quantities of onions, peppers and coriander, which could be produced domestically with careful planning and targeted technical assistance. Minor improvements in Mahaweli’s transportation system could stimulate the cultivation of commercial crops and value-added processing for local and national markets.

7. Projects designed to introduce new crops, technologies, and marketing channels can be very costly. If adoption rates are low and benefits are small, the economic rate of return will be low. Economic rates of return were very low on both the MARD and MED projects. Crop diversification into high-yield crops has grown rapidly but is a very small share of total acreage. Additional farmer income from the new crops is also relatively low, owing in part to their high labor requirements. While on- and off-farm employment has grown rapidly, not all of the new jobs can be attributed to the USAID projects, and income from those new jobs is relatively modest.

Conclusions from the Development Aid Experience

5.26 Common components of USAID’s programs to support and develop NTAEs in the 1980s and 1990s were:

- direct assistance to existing and potential firms and entrepreneurs;
- policy and regulatory reform;
- creation and strengthening of private and public institutions favorable to agribusiness;
- support for privatization of parastatals supplying fertilizer.

5.27 These programs had significant effects on employment and income generation, mainly benefiting small farmers through contract farming, which gave access to national and foreign markets as well as to production technology.

5.28 As a result of these experiences, USAID focussed its subsequent NTAE and agribusiness efforts on improving the overall enabling environment in NTAE countries, and specifically the efficiency of transportation and of customs activities, through long-term strategies of private sector development, mainly geared to small and medium-size firms and focusing on the transfer of production technology and the development of export market links, while continuing to explore contract-farming arrangements.

5.29 USAID saw a need for a collegial and collaborative approach to agribusiness development, through multi-donor projects partnered with selected NGOs/ PVOs, through cooperation with national development banks and export promotion agencies, and through close ties with relevant private sector firms or organizations. Private agribusiness managers, both national and international, should be involved in project design and implementation, as should financial service providers and business training and accounting institutions. Efforts should focus on high-opportunity subsectors through support for experienced medium-size firms. This should not preclude accessing regional
markets, especially in isolated and resource-poor environments where value-adding linkages into the regional and domestic markets is often more cost-effective and less risky than high value international market products.
Success Factors in NTAE Development

5.30 Our analysis of the region’s export industries points to a number of basic economic conditions that must be met if significant sustainable development is to take place:

1. Profitable market opportunities must exist in accessible hard-currency markets such as the EU;

2. The country's physical location and logistical services must allow cost-effective access to such markets

3. The country should possess favorable growing conditions for cost-effective production of off-season or exotic vegetables/fruits/flowers;

4. Adequate internal transportation infrastructure must exist for both inputs (equipment, fuel, electricity, seed and vegetative materials, agrochemicals, packaging materials, etc.) and outputs;

5. The communications infrastructure must permit development of market knowledge and contacts;

6. A cadre of skilled agricultural producers should have secure access to land for commercial production;

7. Field labor and administrative staff need to be easily trained and available at low cost;

8. There must be secure access to up-to-date production and processing technology and inputs;

9. A liberal, cost-effective import and export regime must exist for both inputs and outputs;

10. Competitively-priced finance for working and investment capital must be available;

11. The real macro-economic, fiscal and regulatory environment needs to be favorable;

12. Private sector criteria (not public sector priorities) must drive the industry's development;

13. Effective trade associations are needed to protect and promote the industry's interests; and
14. The industry must establish close links with its target markets and be able to respond and adapt without delay to its changing needs, including increasingly rigorous certification.
VI. RECOMMENDATIONS FOR SUBSEQUENT PHASES OF THE STUDY

Approaches

6.1 In order to lend rigor to the analysis of the development needs of NTAE sectors in the candidate countries, a series of methodological tools needs to be assembled. For the analysis of the actual value chain, I suggest two approaches:

1. the global commodity chain (GCC) approach, as described by Raikes, Jensen and Ponte in “Global Commodity Chain Analysis and the French ‘Filière’ Approach: Comparison and Critique”.
2. competitiveness analysis, as developed by Professor Michael E. Porter of the Harvard Business School.

6.2 The global commodity chain (GCC) is defined by Hopkins and Wallerstein (1994) as “a network of labor and production processes whose end result is a finished commodity” in which either the producer or the buyer possesses decision-making power over the chain and over the added value or profit that it generates. Automobile manufacturers are examples of producer-driven chains, while agricultural commodity chains are normally buyer-driven.

6.3 Key dimensions of GCCs are: the chain’s input/output structure; the territory it covers; its governance structure; and the institutional framework that identifies how local, national, and international conditions and policies shape the globalization process at each stage of the chain.

6.4 “Buyer-driven chains differ from producer-driven chains in that they have low barriers to entry in production. Therefore producers are subordinated to the key agents controlling design and marketing, and specifically controlling international brand-names and retailing, where barriers to entry are high and profits are concentrated. Production is increasingly out-sourced to a competitive decentralized system of subcontractors, the majority of whom are typically located in developing countries, often ranged in a multi-stage but also multi-quality array, with the bottom technology, quality and value-added located in the least developed countries with the lowest wages. New brand-name “producers without factories” are organized entirely on this basis. Such buyer-driven chains … characterize almost all agricultural commodity chains.”

6.5 The authors suspect, however, that power does not lie entirely with the driver, but may be multi-polar and diffused between producers and buyers. What about the power of governments? There are also some producer-driven agricultural commodity chains, such

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as the one for bourbon vanilla, in which Madagascar held a strong (though abused)
position as a market maker in the 1980s and which that country is currently trying, fairly
successfully, to recover, buoyed by a price surge caused by strong demand and short
supplies.  

6.6 **Competitiveness analysis.** The concept of competitiveness and the principal
analytical tools for its analysis were developed by Prof. Michael Porter of Harvard
Business School, and have been expounded, by him as well as by his followers, in
numerous publications. The key concepts are: competitive advantage as distinct from
comparative advantage; the importance of cluster development to the emergence of
sustainable and competitive industries; and the essential role of innovation in maintaining
a competitive edge in the market place. These concepts shed light on the factors behind
the success of certain leading-edge industries such as Kenya and Cote d’Ivoire and help
us see the weaknesses of less successful export countries that tend to rely excessively on
their natural endowments. Also, and more importantly, they emphasize the precarious
nature of success and the constant need for improvements to the technology, marketing,
management and regulatory environment that underpin an industry’s development.

6.7 The following excerpts from a recent publication by Professor Porter show how
these concepts are currently being used to analyze industry clusters. His text is given in
italics and our comments follow in normal print.

6.8 Competitive advantage: wealth is created by a nation’s policy and competition
choices. Wealth (a nation’s standard of living) is determined by the productivity with
which it uses its human, capital, and natural resources. The appropriate definition of
competitiveness is productivity.

6.9 Productivity is easily measured in both firms and farms, e.g., as exportable yield
per hectare or per worker in banana plantations, or per meter in flower production, or as
returns to capital investment. Inter-firm, inter-farm or international comparisons of
productivity are also possible, as are historical comparisons. This allows firms and
countries to be ranked by levels of productivity and provides a guide to their relative
competitiveness. Weak and stagnant yields or returns would indicate low productivity,
the causes of which can be identified and addressed. These causes can often be found in
the approach adopted in the development of the industry. For example, countries that rely
on their initial endowments of abundant natural resources and cheap labor often lose
competitiveness over time as other countries innovate and increase their physical and
financial yields.

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Inherited comparative advantage:
- Exploit the home country’s natural resources and supply of low-cost labor
- Export primarily to advanced countries

Skills in exploiting comparative advantage:
- Utilize skills in exploiting natural resources / abundant labor supply to expand into other resource-rich countries
- Foreign investment in other resource-rich countries
- Sales primarily to advanced countries

Created competitive advantage
- Create firm-specific competitive advantage in products, processes, or marketing
- Export and foreign investment to other developing countries, especially neighbors
- Exports to focused segments of advanced economies

6.10 It should be noted that the reference to “skills in exploiting comparative advantage” does not necessarily imply that businesses must invest directly in primary production in the way they do in Kenyan fresh produce exports and Côte d’Ivoire bananas. Without actually farming, international traders and primary processors of agricultural commodities, such as Cargill, thrive on their ability to exploit, in a cost effective manner, sources of the products of national agricultural industries for sale on international markets. While the exporting nations often receive declining financial returns for their production, the trader/processors maintain their competitiveness by expanding their operations into new territories, as well as by increasing the financial and physical productivity of their international operations. Thus they benefit from the resource endowments without exposure to production risks, and maintain their competitive edge and financial muscle in the marketplace.

6.11 On the other hand, producers of NTAE, whether foreign or native, need to focus directly on maintaining the competitiveness of their operations, in order to avoid the resource trap of declining returns. To some extent they may be able to compensate for the deficiencies of a comparative-advantage-based sector, with its low productivity, by adding value innovatively “downstream” from primary production (cf. Homegrown’s purchases of cheap vegetables from outgrowers in Kenya for use in high-care pre-packs). But since the market demands full environmental, sanitary and social accountability throughout the value chain, the Kenyan industry risks losing competitiveness from such procedures and is obliged to upgrade its systems and jettison its early dependence on low productivity systems. A similar pattern has emerged in the Cote d’Ivoire and Cameroon banana industry, once based on low yield small-holders supplying exporters shipping to importers selling to distributors, which in the last decade has shifted to multinational organizations operating fully integrated production / shipping / ripening / distribution systems.

6.12 For NTAE industries to develop into competitive economic entities, Professor Porter prescribes a series of promotional roles for government to play that are clearly relevant to Bank policies. They mirror to a large extent our own empirical findings from our research and are outlined below:
Appropriate Roles of Government in Economic Development:

1. Establish a stable and predictable macroeconomic, political, and legal environment
2. Improve the availability, quality, and efficiency of general purpose inputs, infrastructure, and institutions
3. Set overall rules and incentives governing competition that encourage productivity growth
4. Facilitate cluster development and upgrading
5. Create an explicit, ongoing process of economic change and competitive upgrading which informs citizens and mobilizes the private sector, government at all levels, educational and other institutions, and civil society.

Appropriate Roles of Government in Cluster Development

• A successful cluster policy builds on sound overall economic policies
• Government should support the development of all clusters, not choose among them
• Government policy should reinforce established and emerging clusters rather than attempt to create entirely new ones
• Government’s role in cluster initiatives is as facilitator and participant. The most successful cluster initiatives are a public-private partnership

Illustrative Government Policies for Cluster Development

Related and Supporting Industries:
• Sponsor forums to bring together cluster participants
• Cluster-specific efforts to attract suppliers and service providers from other locations
• Establish cluster-oriented free trade zones, industrial parks, or supplier parks

Demand Conditions:
• Create streamlined, innovation-friendly regulatory standards affecting the cluster to - reduce regulatory uncertainty
- stimulate early adoption
- encourage innovation or new products and processes
• Sponsor independent testing, product certification, and rating services for cluster products/services
• Act as sophisticated buyer of the cluster’s products / services

Context for Firm Strategy and Rivalry:
• Eliminate barriers to local competition
• Focus efforts to attract foreign investment around clusters
• Focus export promotion around clusters
• Organize relevant government departments around clusters

Context for Factor (Input) Conditions and Rivalry
• Create specialized education and training programs
• Establish local university research efforts in cluster-related technologies
• Support cluster-specific information gathering and compilation
• Improve specialized transportation, communications, and other infrastructure required by cluster.

6.13 Porter’s theory requires that economic and social policy be integrated, as there is “no inherent conflict between economic and social policy”. Curiously enough, many of
the environmental, sanitary and social compliance requirements being introduced by the EU under its different codes reflect these same concerns and are now part of the EU marketplace for food and ornamental products, though of course with differing levels of application in the supply industries. According to Porter, a productive and growing economy requires:

– Rising skill levels
– Safe working conditions
– Healthy workers who live in decent housing in safe neighborhoods
– A sense of equal opportunity
– Assimilation of underemployed citizens into the productive workforce
– Low levels of pollution (pollution is a sign of unproductive use of physical resources)

• “Social” policies must be aligned with productivity in the economy and prepare and motivate citizens to succeed in the market system
• “Economic” policies must include explicit programs to raise human capability and improve the lives and the sense of opportunity for citizens.

Methodology of Case Studies

6.14 The purpose of the proposed studies requires full definition and should have the support of all parties concerned in the research. This will require a consensus on the vexing question of whether NTAE development has a direct link to poverty alleviation or whether its impact on poverty occurs mainly via economic growth. Confusion on this key point detracts from the focus and usefulness of the research outputs.

6.15 Once this key question is resolved, two main choices of approach are available:

1) To define the strategic options for implementation of an NTAE development initiative in the country case studies, for which Ethiopia, Uganda, Senegal and Ghana are proposed. All these countries have existing industries that are emergent but that lack a firm place in the EU market and would clearly benefit from a review of their current status. The studies could be conducted in a collegial manner by international and local Bank consultants/analysts with industry players and donor agencies, leading up to an in-country strategy formulation workshop. Once the exercise has been conducted in all the countries concerned, the coherence of the proposed strategies can be examined and final recommendations drawn up, from both an industry and a donor perspective.

2) To examine the degree of competitiveness of the different case study industries and determine their prospects for success under a ceteris paribus scenario, while also drawing up recommendations for corrective measures. The results would provide input into Bank agricultural policies in the region but would not attempt to mobilize industry players directly into adopting specific measures to respond to areas of risk identified in the study.

6.16 Whichever approach is used, the key variables to be covered would be:
industry composition, including:
   o products;
   o availability calendars by volume;
   o export volumes by grades, by growers and by regions;
   o ownership of production and processing facilities (including cold storage and packaging), land, sea and air transportation, and logistics;
   o production and processing technology;
   o market linkages (e.g., target markets, exporter-importer linkages, marketing arrangements, prices, payment conditions, etc.);
   o certification and compliance;
   o economics of production (e.g., crop and enterprise budgets for key products and processing operations, etc.);
   o value chain composition;
   o finance and investment;
   o transportation and communications infrastructure, utilities;
   o trade and producer organizations;
   o enabling environment (i.e., government services, regulatory and fiscal aspects, policy environment);
   o development aid (programs, strategies and resources);
   o prospects for development.