



# Africa Trade Policy Notes



## Africa Can Help Feed Africa: Removing Barriers to Regional Trade in Food Staples

*Africa is not achieving its potential in food trade.* The growing demand for food in Africa is increasingly being met by imports from the global market. This coupled with rising global food prices is leading to ever mounting food import bills. On top of this, population growth, increasing urbanization and changing patterns of demand are expected to double demand over the next 10 years. Clearly something has to change. Business as usual with regard to food staples is not sustainable.

Fortunately, there is a solution to this problem within Africa. Africa's farmers have the potential through regional trade to satisfy much of the rising demand and to substitute for more expensive imports from the global market. But this potential is not being exploited because farmers in Africa face more barriers in accessing the inputs they need and in getting their food to consumers in African cities, than do suppliers from the rest of the world. Currently, only 5 percent of Africa's imports of cereals is provided by African farmers.

The potential to increase agricultural production in Africa is enormous. Yields for many crops are a fraction of what farmers elsewhere in the world are achieving and output could easily increase two to three times if farmers were to use updated seeds and technologies. Also large swathes of fertile land in Africa remain idle. For example, the Guinea Savannah zone covers around 600 million hectares in West Africa—through Uganda and Tanzania and encompassing Malawi, Zambia, Angola, and Mozambique—which is around one-third of the total area of sub-Saharan Africa. Of this, 400 million hectares can be used for agriculture. However, less than 10 percent of this area is being cultivated, suggesting huge unutilized agricultural potential (World Bank 2009).

Open regional trade is essential because demand is becoming increasingly concentrated in cities that need to be fed from food production areas throughout the continent.

### HIGHLIGHTS

#### **BARRIERS ALONG THE VALUE CHAIN ...**

constrain regional trade and drive a gap between producer and consumer prices and increase price variability.

#### **TO MAKE MARKETS FOR STAPLES MORE EFFICIENT...**

and less risky there is need to reform institutions and invest in their capacity.

#### **POLITICAL ECONOMY ISSUES ...**

hinder implementation of open regional trade. Despite commitments towards opening up regional trade in food, implementation has in general been very weak and governments have continued to intervene to restrict trade and maintain barriers and constraints.



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Different seasons and rainfall patterns and variability in production, which will increase as the climate changes, are not conveniently confined within national borders. Thus, a model of food security in Africa based around national self-sufficiency is becoming more and more untenable. A regional approach to food security in Africa will allow governments to more effectively and efficiently meet their objectives of ensuring access to food for their populations. And facilitating cross-border trade in food will provide farmers in Africa with the opportunity and incentives to supply the growing demand. This brings the prospect of not only benefits to farmers and consumers but also of a significant number of new jobs in activities along the value chain of staples – in producing and distributing seeds and fertilisers, in advisory services, consolidating and storing grains, transport and logistics, distribution, retailing, and processing.



***Barriers along the value-chain constrain regional trade and drive a gap between producer and consumer prices and increase price variability.*** African small holder farmers who sell surplus harvest typically receive less than 20 percent of the consumer price of their products, with the rest being eaten away by various transaction costs and post harvest losses. This clearly limits the incentive to produce for the market. Policies that reduce transaction costs and increase competition in the provision of services, that affect the production and distribution of food staples, would reduce the gap between consumer and producer prices.

Many of the key barriers to trade in food staples relate to regulatory and competition issues along the value chain. As tariffs have come down it has become increasingly apparent that a tangled web of rules, fees and high cost services are strangling regional trade in food in Africa. In some cases the policies that are restricting trade are deliberately protectionist. Barriers raise costs and increase uncertainty, make regional markets smaller, and increase volatility. Indeed, the price of maize in Africa has been more volatile than the world price of maize.

Five key barriers along the value chain are:

(i) *Limited access to inputs of seeds and fertilizers and extension services.* Rules and regulations are preventing farmers in Africa from using higher yielding seeds and more effective fertilisers that are widely available elsewhere in the world. For example, in some countries it can take 2 to 3 years for new seed varieties to be released, even if they are being used elsewhere in Africa. In Ethiopia, use of improved hybrid maize could contribute to a quadrupling of productivity and replace commercial imports (Alemu 2010). Farmers in African countries, especially the landlocked, face higher prices for fertilizers than farmers in other developing countries. Individual countries continue to maintain their own different national blend specifications, even when agro-climatic conditions are very similar, which prevents investment that could exploit scale economies in production of fertilisers at the regional level and deliver lower price inputs to farmers.



Trade in these inputs is also often subject to costly requirements relating to product registration, trade permits, phytosanitary certificate (seed), non-GMO certificate (seed), quality assessment, certificate of origin, as well as

normal customs documentation. Streamlining trade procedures for inputs of seeds and fertilizers could have a leveraged impact on farmers' incomes and trade competitiveness. An example from Malawi shows that improvements in trade procedures for fertilizers which lead to a 7.7 percent reduction in farm gate fertilizer prices and a subsequent 10 percent increase in fertilizer use and a 15 percent increase in yields could increase profits per hectare of maize by 50 percent.

(ii) *High transport and logistics costs in Africa, especially for small farmers.* While there is plenty of need for further improvements in infrastructure, physical road conditions are not as important as a constraint to agricultural trade as they use to be (USAID (2011)). Policy reforms that reduce costs and increase competition in transport and logistics services are now critical. Transport cartels are still common in many regions of Africa and the incentives to invest in modern trucks and logistics services are very weak. This is often the result of outdated regulations, such as the trucking queuing scheme used in many parts of West Africa. In these systems, large and small firms “queue up” and loads are distributed according to the next turn. The goal of these systems has been to ensure the survival of small companies but instead has brought less competition, higher prices, and low-quality services. The cartels they have created are now politically well-connected and a substantial barrier to reform and lower food prices.

Roadblocks are also much more than a nuisance, adding considerably to the costs and time and undermining the efficiency. Estimates suggest that reform that delivers more competition could reduce the cost of transporting staples in West Africa by 50% within 10 years (Bromley et al. 2011). Given that transport and logistics costs can account for up to half of the delivered price of staples such reforms could have a major impact on both producers and consumers of staples.

(iii) *Opaque and unpredictable trade policies raise trade costs.* Trade in staples in Africa continues to be affected by measures such as export and import bans; variable import tariffs and quotas; restrictive rules of origin; and price controls. Often these are decided upon without transparency and are poorly communicated, if at all, to traders and officials at the border. This all creates uncertainty about market conditions, limits cross-border trade and raises food price volatility. Often these barriers are invoked in the name of national food security, but they have failed to deliver this and have undermined regional food security. In fact these trade barriers increase food price volatility. Production swings in food staples, when confined to small domestic markets, can quickly lead to collapses and surges in prices. Food prices are more unstable in countries that restrict trade than in countries with open borders.

*“Last year we had a contract to deliver corn to Niger but were stopped at the border because of an export ban. And who knows from where these bans were being ordered? Such export bans not only limit access to food – they discourage farmers. We look for the best markets. If we don’t have exterior markets, we don’t have an incentive to produce.”*

Comments from a cross-border trader in West Africa, source: USAID West Africa Trade Hub

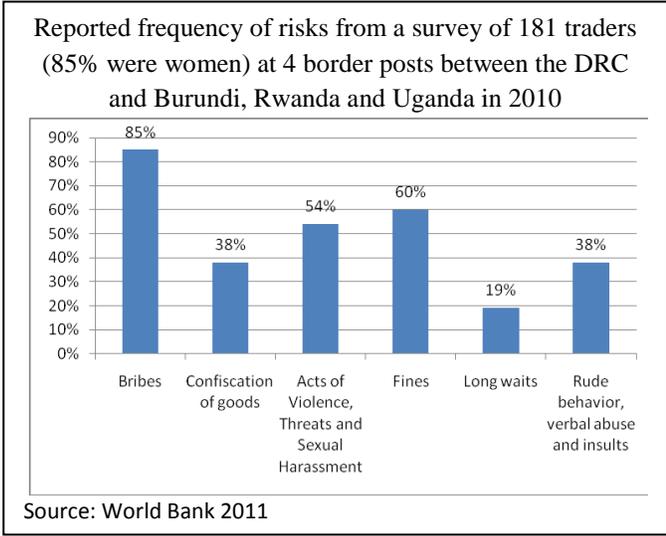
The way that standards for food staples are defined and implemented has a critical impact on the propensity to trade. While an effective standards system is critical to a market based agricultural system open to trade, food safety and sanitary and phytosanitary (SPS) regulations for food staples differ across countries in Africa despite many having similar agro-ecological conditions for pests and diseases, and similar demands regarding food safety. This means that food staple imports must often meet different food safety and SPS declarations between importing countries. Differences in standards are often compounded by a lack of access to testing and inspection services, especially if these services are located in capitals far from the border and food producing areas. Small and medium-size traders are particularly hard hit, since they may find it expensive to go for these

services at the centralized locations. For example, among key trading corridors between Burkina Faso, Ghana and Benin, the cost of obtaining an SPS certificate for maize (or paying a bribe at the border) has been calculated at US\$40/ton, equivalent to nine percent of the farm gate price (USAID 2011).

Finally, harmonization of standards to facilitate trade may be problematic because international standards primarily reflect developed country conditions. SPS problems in African countries differ from those in developed countries, with African countries having only limited capacity to tackle those problems. Many international standards, for example, assume the existence of a conformity assessment infrastructure that may not exist in developing countries and/or can only be established for a high cost. Moreover, in developed countries, domestic standards often approach, if not exceed, the international ones, meaning that harmonization is mainly a question of making minor adjustments to match international norms. In Africa, on the other hand, making domestic standards equal to the international ones can demand a revolutionary new approach to standards management with considerable upgrading of inspection and public outreach capabilities for the new standards to work. Without basic awareness and promotion of good practices for hygiene and safety, for example, higher-level investments in standards diplomacy or development of advanced laboratory capabilities can have little practical benefit and may even be counterproductive (see Africa Trade Policy Note No 33 by John Keyser).

(iv) *Crossing borders is costly and often dangerous.* Hundreds of thousands of Africans cross borders daily to deliver food from areas of relative surplus to areas where prices are higher. Most of these traders are women who provide an essential source of income to many households. Most of the officials who regulate the border

are men. An increasing number of studies show that cross-border traders regularly have to pay bribes and suffer harassment. For women in the Great Lakes region, payment of bribes is a regular occurrence, and a large number of traders report being subject to acts of violence, threats and sexual harassment. Much of this abuse is unreported. The lack of economic and physical security undermines the livelihoods of these traders and compounds their lack of access to finance, information, and business knowledge. Reducing the number of agencies and officials at the border and increasing the transparency and predictability of the policy regime is crucial to provide an environment in which traders flourish and expand their businesses.



(v) *Inefficient distribution services hamper regional trade in food.* Poor people in the slums of Nairobi pay more pro rate for food staples than the wealthy pay at supermarkets. This reflects the importance of the distribution sector and the fact that in many countries the sector is not effectively linking poor farmers and poor consumers. Measures that support both farmers and small sellers becoming more organized can help informal operators participate in evolving distribution sectors. Price controls imposed across the region and the cartels in place in several African countries represent a serious impediment to competition.

*To make markets for staples more efficient and less risky there is need to reform institutions and invest in their capacity.*

The development of institutions that would support African farmers in reducing risks and raising productivity is compromised when the trade policy environment for staples is difficult and uncertain. Effective standards regimes depend upon private sector involvement, but in many countries the process of defining standards is often dominated by government agencies. Private investments in storage capacity, which would help reduce the enormous post-harvest losses and allow farmers to sell when prices are most favourable, are undermined when policies that influence prices, such as export bans, are uncertain and lack transparency.



Commodity exchanges, which have the potential to reduce transaction costs for farmers by reducing the number of intermediaries and improving the conditions of exchange, have not fared well in Africa. A key reason is that they cannot thrive without even handed and predictable policies. Operating across borders would allow exchanges to build sufficient trading volume to exploit scale economies and be more profitable. Finally, investment in the acquisition of market information - essential to allow new opportunities for cross-border trade to be exploited - is less likely when there are risks associated with the policy environment.

There are also a number of institutions that can help in addressing food security concerns and so reduce the political risk from reform: futures and options markets for food staples provide an alternative to holding physical stocks through food security reserves; warehouse receipt systems also help to negate the need to hold or maintain physical stocks of food staples; and weather-indexed insurance can mitigate the impacts of climatic shocks on farmers. Although these institutions can play a key role in supporting greater regional trade, they will only flourish if there is a change in the way that food trade policies are defined and implemented.

*Political economy issues seriously constrain implementation of open regional trade.* Despite commitments towards opening up regional trade in food, implementation has in general been very weak and governments have continued to intervene to restrict trade and maintain barriers and constraints. A program of regional trade reform can only be credible if governments are fully committed to it and take ownership of the process. An indication of this is the extent to which governments seek to build a constituency for reform and invest in explaining the need for (and impacts of) policy change. Such efforts appear to have been absent in most countries in Africa, and there has been a lack of an open discussion on the impact of current policy stances, and the benefits of a regional approach to food security.

Opening up food staples to regional trade will lead to both winners and some losers. Where reform reduces the mark-up between producer and consumer prices, it is farmers and poor consumers who will gain while intermediaries earning rents, both in public sector agencies and well-connected private sector interests will tend to lose. New institutional arrangements, that can moderate the impact of future shocks and instability in agricultural markets, are particularly important.



The absence of a stable and predictable policy environment breaks down trust and constrains private sector investment in food staples, in turn limiting production and trade. And it encourages governments to continue to hedge against the failure of the private sector to adequately

supply food when shortages do arise.

Two key features can assist governments in creating constituencies:

(i) *An inclusive dialogue on food trade reform informed by timely and accurate data on global, regional, and national markets.* In many African countries decisions about food trade policies are made mainly at the highest levels of government, too often without critical analysis and consideration of options. Food trade policy is rarely subject to open discussion, and the interests and views of the broad group of stakeholders in food staples trade policies are seldom represented. And when there is open discussion about trade reform, decision makers rely most on the input of those with political influence – that is, those in government agencies, whose size and influence depends on the current institutional arrangements, and private sector interests, including those that earn rents as intermediaries.

(ii) *A reform strategy that provides a clear transitional path to integrated regional markets, rather than a single but politically unfeasible jump to competitive markets.* The nature and range of the barriers to trade along

the value chain—and the need to invest in market-supporting institutions—show that delivering integrated regional food markets involves more than a one-off commitment, and that reforms cannot be implemented by the stroke of a pen. Thus, for many policy makers the goal of open and competitive regional markets will not occur during their electoral terms. The reform strategy thus needs to define incremental steps that encourage investment by offering certainty to the private sector about policies. It should also deliver real and visible benefits, while allowing policy makers to move at a pace consistent with their capacities and political risks.



The first steps will involve providing increased discipline on short-term policy responses to short-term food insecurity. Governments would retain the capacity to act in times of short-term food crises, but would

provide the private sector with greater certainty that governments will not act on an ad hoc basis with subsequent impacts on prices and profitability. Better informed and more open discussion of food trade policies would go some way towards promoting greater trust and understanding between the private sector and the government over food security.

The barriers to food trade in Africa along the whole of the value chain pertain to many ministries and agencies within government: trade, agricultural, health and safety, transport, finance. This in turn requires a “whole of government” approach to freeing up food trade. And it will require strong and effective leadership to provide the rationale and sustain the momentum for reform, and address the hard choices that arise in dealing with the political economy constraints, that have so far limited the capacity of Africa to exploit its enormous potential to help feed Africa.

***The key recommendation from this paper is to proceed with policy reforms in two key related areas:***

- Implement a set of measures that will remove barriers to regional food trade along the value chain. The nature of these barriers is often to cause economic waste (such as from unnecessary delays in crossing the border due to inefficient customs, burdensome documentary requirements) or to transfer rents to particular interests by constraining competition (for example, in transport and logistics and distribution).

- Define a program of enhanced dialogue on regional food trade that leads to a set rules and disciplines on government interventions into regional agricultural trade. This will provide greater certainty for private sector actors to make investment decisions that increase productivity and trade of staple foods. It will also give policy makers a degree of confidence that they have access to instruments they feel they need in times of crisis during the period when investments are made in response to greater policy certainty.



The Action Matrix below provides a tentative set of actions and monitorable outcomes to initiate a dialogue with stakeholders on next steps towards integrated regional markets for food staples in Africa and enhanced food security.

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This note has been derived from a report of the same title compiled by a team led by Paul Brenton (World Bank) and comprising Nora Dihel (World Bank), Richard Gicho (consultant), Ian Gillson (World Bank), Matthew Harber (consultant), Gozde Isik (World Bank), John Keyser (consultant), Ron Kopicki (consultant), Barbara Rippel (World Bank), and Andrew Roberts (World Bank). This work has been funded by the Multi-Donor Trust Fund for Trade and Development supported by the governments of the United Kingdom, Finland, Sweden and Norway. The views expressed in this paper reflect solely those of the authors and not necessarily the views of the funders, the World Bank Group or its Executive Directors.

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