

Impact of IMF and World Bank policies and EPAs on smallholder farmers in Uganda, Zambia, and Ghana



Kerstin Bertow, University of Giessen

December 2007



The starting point of this presentation is the importance of agriculture for the livelihood security of smallholder farmers. The Economic Partnership Agreements (EPAs) between EU and ACP (Africa, Caribbean, Pacific) countries aim at establishing free trade and including the liberalisation of agriculture.

It is difficult to assess the impact of these EPAs since they will come into force in 2008 at the earliest. For instance, in the case of International Monetary Fund (IMF) and World Bank liberalisation it took more than ten years after completion to analyse the outcome. Moreover, the correlation between liberalisation and its outcome is nondistinctive: parallel to the EPA negotiations IMF and World Bank still spur on further liberalising developing countries. On multilateral level additional liberalisation processes take place. Nevertheless, it is necessary to estimate the potential impact of EPAs on agriculture since the agricultural sector is of that high importance.

The past liberalisation processes under influence of IMF and World Bank shed light on the impact of EPAs. Therefore, this presentation gives an overview of this liberalisation impact. The analysis comprises more than 30 years of liberalisation on the one hand and future prospects on the other. It also deals with the entirety of the SSA (Sub-Saharan) countries and a more detailed view on Uganda, Zambia, and Ghana. 0

Agriculture in Uganda, Zambia, and Ghana

- smallholder agriculture in Africa _ large part of population (73% in rural pop.), large share of agricultural production (90%)

	Uganda	Zambia	Ghana
contribution by agriculture to GDP (2003-05) [%]	32,4	20,7	37,3
workforce engaged in agriculture (2000-01) [%]	81	70	57
population residing in rural areas (2003-05) [%]	87,5	65	53
share in total exports (2003-05) [%]	74	19,4	56



A large part of the rural population are smallholder farmers, e.g. in Zambia 90% of rural farmers are smallholders. They are mainly responsible for most of the agricultural production – in Ghana, the value-added from smallholders accounts for 90%. Most of these small-scale farmers are subsistence or semi-subsistence farmers (semi-subsistence means growing for home consumption and selling additional products on local markets). In the majority of cases they use simple technologies (smallholder farmers often rely on hand hoes and oxen) and cultivation practises (there are for example minimal purchased inputs like fertilizer). Moreover, smallholder agriculture is characterised by relatively low productivity.

In Uganda, Zambia, and Ghana agriculture is crucial in case of GDP and in share of total exports, especially with regard to Uganda and Ghana. It is also vital as far as employment is concerned, e.g. in Uganda with 80% of workforce engaged in agriculture (including processing, transport, and trade of agricultural products and materials linked to this sector). In Ghana nearly 60% of the poor depend on growing food for own consumption. Therefore, small-scale production is crucial for the livelihood security of the smallholders. In Uganda 5% of rural households still experience continuous food insecurity.⁰

Fotos: Fact Finding Missions to Sambia and Ghana 2007



Tomato farmers in Ghana



Member of Dairy Cooperative
Magoye, Zambia



Lunch, Zambia



Family from Koluedor, Ghana



IMF/World Bank engagement

- crisis of world trade during 1970s hurts Africa

_ engagement of IMF/World Bank since 1970s

- support in case of balance of payment problems, escalating debt situation
- restructuring of economy by macroeconomic reforms

_ liberalisation of agricultural trade

- increase of agricultural exports
- export of non-traditional products



African countries, including Uganda, Zambia, and Ghana, were affected by the crisis in world trade at the beginning of the 1970s. They were hit by the increasing oil prices due to their dependence on oil imports. As their economies are characterised by the export of raw materials they suffered from the decline in prices and the recession in Europe and the US. Internal factors like the strategy of import substituting industrialisation, the large military spending, for instance in Uganda, and a lack of investment caused additional costs. These factors led to serious balance of payment problems and increasing indebtedness during the 1970s and 1980s. θ

IMF and World Bank firstly assisted with short-term-measures and aimed at stabilizing the balance of payment problems. The failure of these measures resulted in a next step: IMF and World Bank implemented macroeconomic reforms in these countries to restructure the whole economy (liberalisation, privatisation, deregulation). θ

The liberalisation of agricultural trade placed emphasis on an increase of agricultural exports and the export of non-traditional products. In the following, details concerning the impact of this agricultural liberalisation will be presented.θ



On the occasion of the international day of action "STOP-EPA" demonstration on 27.09.07 in Accra, Ghana.



IMF/World Bank liberalisation of agriculture I

- reduction of subsidies _ increase of fertilizer prices

Zambia: doubling of prices, decrease in use about 50% (1990s)

- removal of guaranteed prices _ affects products competing with subsidised imports

Ghana: maize from U.S. 30% cheaper than local maize

- reform of financial systems _ restricted credit access for smallholders

Uganda: reduced credit access, inadequate granting of loans



As far as the impact of the liberalisation under IMF and World Bank is concerned there are three implications for smallholders related to the reduction of government intervention.

The rise of fertilizer prices reduced the availability for smallholders and therefore lowered their productivity and limited gains from liberalisation. In Zambia, for instance, the prices doubled and the use was halved during the 1990s.θ

As a result of the elimination of the guaranteed price system smallholders had to compete with cheaper imports, and they lost this competition. Ghana had to struggle with US-American maize which is much cheaper than the local produced maize. θ

Investments in inputs and working capital are necessary to move to higher productivity farming. The liberalisation of the financial sector reduced the credit access for smallholders dramatically. Other problems result from structural problems, for instance if farmers are expected to start loan repayment before the harvest season. θ



Milk products from the Magoye Cooperative in Zambia that are sold by Parmalat are still competitive.



IMF/World Bank liberalisation of agriculture II

- export promotion _ dominance of large firms
 - Zambia: dominance of commercial farmers in export of fresh fruits/vegetables
 - _ replacement of food crop production by cash crop production
 - Uganda: replacement instead of enlargement (land access)
- tariff reduction _ decline of government revenues
 - Zambia: tariff income/real government expenditure fell by 50% (1990s)
 - _ competition from cheap imports
 - Ghana: import of cheap frozen chicken parts from EU, only 11% domestic producers left over



The strategy of export promotion induced a shift away from smallholder farmers to large firms. This happened in Zambia's export of fruits and vegetables. θ

In Uganda the limited access to land (80% of smallholder farmers dispose of less than 2 hectares of land) and the simple cultivation practises do not allow an enlargement of production, so food crop production is often replaced by production for export. θ

An essential element of the liberalisation is the reduction of tariffs that led to declining government revenues. In Zambia for instance the income from tariffs decreased dramatically. A consequence was the reduced spending on social services and infrastructure with negative consequences for the poor in these countries. θ

The reduction of tariffs also resulted in a competition from cheap imports that ruined domestic producers. In Ghana, chicken imports from the EU threatened local producers and ruined the local poultry production.

Therefore, we can come to the conclusion that the potential positive implications of liberalisation did not benefit the smallholders in Uganda, Zambia, and Ghana. θ



Due to cheap European tomato puree tomatoes from Ghana are having sales problems.

Both ENDS
Environment and Development Service

FIAN

UK FOOD GROUP

GERMANWATCH

EPAs and agriculture in EU and ACP states

- Lomé Agreements: non-reciprocal trade (DFQF access and development support)
- Cotonou Agreement: reciprocal free trade (tariff elimination and development support) in Economic Partnership Agreements (EPAs)
- EU/ACP: unequal partners
 - ACP GDP 3,2% of EU GDP
 - EU farmer receives 100 times more in agricultural support than annual earnings of African farmer



During the past 35 years the ACP states benefited from a duty free and quota free market access to the European market and from financial support (within the European Development Fund, EDF).

In the 1990s these Lomé principles were challenged due to several reasons. Due to the end of the cold war the developing countries lost their strategic relevance. The economic failure of Lomé, especially the absence of diversification, was another reason. Moreover, new trade principles in the World Trade Organisation (WTO) context became relevant. The preferential scheme between EU and ACP states became incompatible with the WTO principle of the Most Favoured Nation (MFN) Treatment since it provides better market access opportunities to ACP countries than to other developing countries. θ

Therefore, the Cotonou Agreement aims at establishing a Free Trade Area, the EPA, that is compatible with WTO requirements. θ

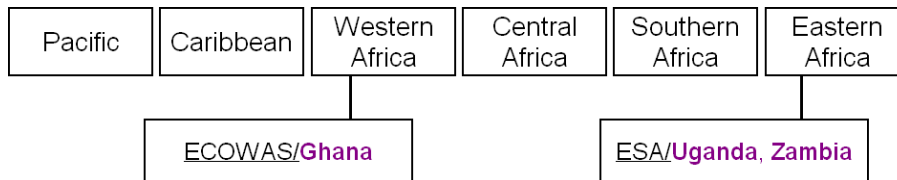
The ACP states will have to enter into reciprocal free trade agreements and will have to liberalise “substantially all trade”. The elimination of tariffs will have to take place between unequal partners, viewable in size of GDP and agricultural support. Despite this asymmetry EU and ACP states negotiate reciprocal free trade agreements with only slightly asymmetry. θ



Demonstrators on 27.09.07 in Accra, Ghana fear that their terms of trade with the EU will deteriorate.

EPAs – regional free trade agreements

- negotiations with 6 regions since 2003



- delay in timetable: crucial differences
 - market access to ACP/exclusion of sensitive products
 - timeframe for liberalisation
 - development dimension/additional funding
 - liberalisation of services/other trade-related issues



Negotiations take place since 2003 at the regional level with six different regions. The deadline for the signing of EPAs is the end of December 2007, but all regions are behind the schedule. It is impossible to negotiate comprehensive EPAs until the end of 2007. Therefore, the Commission proposed interim agreements based on a two-step approach. ACP countries should liberalise their trade in goods within the interim agreements and continue negotiating comprehensive EPAs during 2008. This proposal is discussed controversial.⁰

Crucial differences exist between EU and the ACP regions since the beginning of the negotiations. Central issues are: Firstly, the provision of market access to the ACP markets and the extent of excluded sensitive products is contended. Secondly, there exists deep disagreement concerning the timeframe for liberalisation: the promised 25 years (or even the 10-15 years proposal) for the gradual reduction of tariffs seems to only apply for a few products. Thirdly, crucial differences exist in the question of binding or non-binding financial commitments of the EU to meet adjustment costs. Not all ACP states want to negotiate the liberalisation of services and other trade-related issues (investment rules, intellectual property rights, government procurement, competition policies, and environmental and labour regulation), but presumably there is an obligation to negotiate these issues in interim agreements. ⁰

Constraints in smallholder agriculture I

- restricted access to land

Zambia: 75% of farm households cultivate 2 hectares or less

- low degree of irrigation

Zambia:

- o 16% of cultivable land regularly cropped

- o 6% of irrigation potential used for irrigated agriculture

- lack of storing facilities

Uganda:

- o concentration on large-scale storage facilities for export crops

- o new strategy: multi-crop storage facilities for smallholders



With regard to agriculture there exist different preconditions for agricultural trade between EU and ACP states. African agriculture faces several constraints that restrain potential benefits from liberalisation. In the following many important constraints for Uganda, Zambia, and Ghana are listed.

First of all there is limited land access, for instance in Zambia, where 75% of farm households cultivate 2 hectares or less. Another important issue is the low degree of irrigation e.g. in Zambia that constrains the increase of productivity for smallholders. In Zambia, only 6% of the irrigation potential is used for irrigation (which is similar to Uganda and Ghana). Thirdly, the lack of storing facilities is of importance, too. Citing Uganda as an example the small number of storing facilities restrains local markets in Uganda: there is a lack of lockable secure storages on local markets. During the liberalisation processes in the 1990s the Ugandan government concentrated on large-scale storage facilities for export crops. Only in the recent past the Ugandan government focuses on smallholder farmers, e.g. with the establishment of multi-crop storage facilities to benefit from trade at other times than peak sale periods. θ



Milk collection point of the Magoye Cooperative in Zambia



Constraints in smallholder agriculture II

- few processing possibilities

Uganda:

- trade/consume of fresh fruits and vegetables
- few processing factories (fruit juices/concentrates)

- high credit costs

Uganda: instead of use for production often use for marketing/
financing activities

- weak infrastructure

Uganda: 25% of feeder roads impassable during raining
season



There is a lack of sufficient processing possibilities, e.g. in Uganda exist only few processing industries for fruit and vegetables (primarily producing fruit juices and fruit juice concentrates).

Moreover, the countries struggle with high credit costs due to the removal of subsidised credit for agriculture and a lack of insurance markets. Credits and marketing aspects under private sector promotion are often “uneven and unpredictable and once market forces had eliminated the implicit subsidies to remote and small farmers, many farmers were left worse off.” (UNCTAD: Economic development in Africa 2002, p.39.) Additional, in Uganda the application of credits is insufficient since credits are often used for marketing or financing activities rather than for production.

Another constraint is the weak infrastructure constraining the trade activities of smallholder farmers. In Uganda, 25% of the feeder roads are impassable during the raining season. Not only the improvement in roads, but also electricity, water supply, education and others are important to improve the smallholders' access to markets. The improvement of transport and energy infrastructure helps avoiding post-harvest losses that account for up to 50% for fruits and vegetables.

0



Milk has to be transported on difficult ground and over very long distances.

Both ENDS
Environment and Development Service

FIAN

UK FOOD GROUP

GERMANWATCH

Constraints in smallholder agriculture III

- information constraints
 - delay in information about changes in export markets, e.g. quality requirements
- high volatility of world market prices
 - 1983-1998: fluctuation of commodity prices from 50%-150% of average
- protection of European market
 - Zambia: European subsidies depress world market prices, e.g. cotton: removal of subsidies _ price increase of 18-28% and increased earnings
 - _ development of agricultural potential requires time



Further constraints concern the information exchange where smallholder farmers are disadvantaged. Their limited access to information, e.g. quality requirements of the European market, prevents them from participating in trade flows.

The high dependence on export of raw materials and the high volatility of commodity prices affect agriculture in Uganda, Zambia, and Ghana. During the 1980s and 1990s the fluctuation of commodity prices varied from 50 to 150% of the average.

An important constraint for smallholder agriculture is the protection of the European market – the removal of European subsidies could increase the earnings of African states. Depressed world market prices are a result of subsidies of developed countries, e.g. the case of European subsidies on cotton and its meaning for Zambia. The removal of subsidies could lead to a price increase of 18-28% and increased earnings. θ

The listing of deficits loses sight of the potential of agriculture in Africa. In the face of the pressure the EU exerts on ACP states to negotiate EPAs until the end of the year 2007. These constraints demonstrate that restructuring of agriculture needs time and policy space for autonomous decisions of Africa governments. θ

EPAs – impact on agriculture I

- regional integration
 - EPA regions differ from already existing configurations
 - negotiations with sub-groups/individual countries (ESA/EAC)
 - [Uganda: interim agreement EAC](#)
 - [Zambia: interim agreement ESA](#)
- _ EPAs as obstacle for regional integration?
- market access to EU
 - non-tariff barriers _ high costs/quality standards, information constraints
 - rules of origin _ harmonisation and simplification



It is difficult to estimate the impact of EPAs on agriculture due to the fact that agreements are not yet negotiated and there is a low degree of transparency in the negotiating process. Moreover, liberalisation first has to proceed before an empirical analysis of data could be realised.

Therefore, this is an approximation to show the dimension of further liberalisation impact.

The EPAs could undermine existing regional integration efforts due to the fact that they are not congruent with already existing regional configurations. Moreover, the new strategy of the European Commission to negotiate with sub-groups or single countries undermines regional integration efforts since they erect significant trade barriers between the countries in that region (different tariffs in trade with EU). An example is the ESA region: while Uganda negotiates an interim agreement within a sub-region (East African Community, EAC), Zambia negotiates under the ESA framework.θ

As far as the market access to EU markets is concerned ACP countries enter the market almost duty and quota free, but existing non-tariff barriers like high quality standards and restrictive rules of origin limit the market access potential for ACP countries. θ



On the occasion of the international day of action "STOP-EPA" demonstration on 27.09.07 in Accra, Ghana.



EPAs – impact on agriculture II

- market access to ACP
 - exclusion of sensitive products
 - ESA: proposal of exclusion of 40%, EU offer at most 20%
 - protection of sensitive agricultural products/infant industries
 - difficulties in consolidation of regional lists
 - competition with cheap imports from EU
 - timeframe for liberalisation: 25 years – 10-15 years – less



The market access to ACP is one of the most controversial issues. The ACP states wanted to liberalise about 60% of trade and exclude some 40% of sensitive products. The EU offers up to 20% of sensitive products to exclude from liberalisation following WTO practice. The WTO requests the liberalisation of “substantially all trade”, but there is no definition of the specific extent. The idea is to protect sensitive products in agriculture and industry. Difficulties emerged in the consolidation of regional lists due to the fact that countries within the same regions define different products as sensitive. The lower the number of products excluded and the more the products vary within a region the more difficult for the ACP states to consolidate their regional lists of sensitive products.

Potential damage results from the competition with cheap imports from EU threatening African producers and smallholders. A well-known example from the past is the competition from cheap imports of tomato paste in Ghana.

Another critical issue is the timeframe for liberalisation: the restructuring of markets requires a longer period of time. It seems so as if majority of products is not going to be protected for 25 years but for 10-15 years or even less. ∅



Tomato harvest in Koluedor, Ghana





Improved protection measures for tomato farmers from Koluedor, Ghana?



EPAs – impact on agriculture III

- deindustrialisation of agro-processing industry
 - unemployment, shrunk tax base, economic dependence, demotivation for new firms to enter market
 - Uganda: agro-processing industry 39% of all manufactured establishments
- revenue losses through tariff elimination
 - reduced government spending (health, education, agricultural support like fertilizer)
 - Ghana: estimation of 10% drop in fiscal budget (90 mill. US-\$)



Another impact of liberalisation of trade in agricultural goods is the potential deindustrialisation of the agro-processing industry. A price and quality competition of cheaper imported products with local firms will occur. This could lead to unemployment and a reduced tax base lowering government revenues since the agro-processing industry is a large part of industry in SSA countries. In most SSA countries processing of agricultural products accounts for two-thirds of manufacturing value-added. Another example is Uganda where the agro-processing industry amounts to 39% of all manufactured goods. In Ghana it is estimated that solely one quarter of Ghanaian industries would survive without tariff on imports. ⁹

The estimation of revenues losses in consequence of liberalisation is difficult because there exist several studies with different scenarios depending from their basic assumptions. Estimations for the whole EPA region anticipate revenue losses of 6% of GDP. In Ghana, studies estimate a 10% drop in the fiscal budget. The tariff reduction concerns the government's financial resources and leads to reduced government spending for smallholder farmers, e.g. in health, education, or agricultural support like fertilizer. ⁹

EPAs – agricultural products

- export commodities: mostly unprocessed agricultural products/raw materials despite diversification
- strengthening of non-traditional exports
- smallholder/commercial farmer _ depends on product

Zambia:

commercial: floriculture and fresh vegetables, coffee, paprika

smallholder: cotton (98%), tobacco

Ghana/pineapple:

largest contributor to non-traditional exports

45% smallholder production



The export products of Uganda, Zambia, and Ghana are mostly composed of unprocessed raw materials and agricultural goods despite diversification from traditional to non-traditional products. The promotion of non-traditional exports and the impact on smallholders differs contingent on the production structure of the economies. For instance, while in Uganda coffee is a traditional crop mainly produced by smallholders in Zambia coffee is a non-traditional agricultural product mainly produced by commercial farmers.

Another example for a non-traditional product is the production of pineapple in Ghana. Pineapple is the largest contributor to non-traditional exports in Ghana. 45% of the cultivation is carried out by smallholder farmers. The constraints for smallholders in producing for export first of all include problems of meeting European standards. 2003 only one third of smallholder farmers has obtained the necessary and expensive certification. The weak package systems, inadequate cold chain systems as well as harvesting and post-harvesting methods limit the participation of small-scale farmers in trade. Additionally, a low productivity, diseases, and environmental degradation restrain smallholder farmer production.

θ



Rice harvest in Analavory, Ghana

Vegetable market in Antisirabe, Ghana





Every day this girl gets a cup of milk, Zambia.



Conclusions – liberalisation of agriculture I

_ IMF/World Bank liberalisation of agriculture: negative impact on smallholder farmers

_ Economic Partnership Agreements EU – Africa

- o criticism from civil society, trade unions, farmers' organisations, employers' organisations, research institutions, UNCTAD, IMF, World Bank

farmers' organisations:

“Putting into competition two agricultures with such enormous differences of productivity and which benefit from equally divergent policies and public support represents a major threat for the ACP agricultural economies and, in the first instance, for the economies of family farms.”

EAFF, PROPAC, ROPPA, SACAU, WINF: Mid-term reviews of EPAs 2006, p.13.



The liberalisation of agriculture under IMF and World Bank rule did not benefit the smallholders in Uganda, Zambia, and Ghana. During the liberalisation phase in the 1980s and 1990s the smallholder farmers have not been in the focus of interest and the expected trickle-down effects failed to appear. Ø

The EPAs are targeted on the intensification of liberalisation processes of these countries and are of high importance for African agriculture. The reciprocity between unequal partners will cause a lot of difficulties mainly for ACP smallholder farmers and infant (agro-processing) industries. As far as the EPAs are concerned civil society and even IMF and World Bank criticised the composition of these Free Trade Agreements. Ø

Farmers' organisations fear the competition from cheap European imports:

“Putting into competition two agricultures with such enormous differences of productivity and which benefit from equally divergent policies and public support represents a major threat for the ACP agricultural economies and, in the first instance, for the economies of family farms.” (EAFF, PROPAC, ROPPA,

SACAU, WINF: Mid-term reviews of EPAs 2006, p.13.) Ø



Milk collection point from
Magoye, Zambia



Saleswomen for tomatoes



Tomato market in Ghana



Saleswoman
for tomatoes



Conclusions – liberalisation of agriculture II

- _ smallholder farmers in focus of national, regional, international trade policy
- _ support in facing supply-side constraints
- _ more time for negotiations
- _ research: comparative advantages of smallholder products
- _ strengthening of regional integration in Africa
- _ FTAs must support national efforts to strengthen agricultural sector and especially smallholder farmers



Regarding the importance of agriculture for the livelihood security of smallholder farmers EPAs have to focus on their needs. EPAs must provide sufficient policy space for governments to generate their own development priorities. Civil society must be included in this process, especially the farmers' organisations and trade unions as well as their members.

The EU has to support the elimination of the numerous supply-side constraints like weak infrastructure and low productivity. Necessary to face these constraints is providing more time within the liberalisation schedule – the liberalisation process in Europe required decades, for instance.

Further, it is necessary to intensify agricultural research and strengthen the agricultural expertise of researchers as well as of smallholder farmers. Exploring the comparative advantages for small-scale farmers is an imperative.

EPAs in their current form endanger the existing regional integration processes through the splitting of the regions. This undermines the EU rhetoric to create EPAs that support regional integration in Africa.

The focus of EPAs must be sustainable development and the eradication of poverty with a focus on the development of smallholder agriculture. θ



Saleswoman for tomatoes in Ghana, Smallholder in Focus



Thank you very much
for your attention!



Further information

For detailed background information about the content of this presentation
see study:

Impact of EU's agricultural trade policy on smallholders in Africa

>> www.germanwatch.org/handel/euaf07e.htm

Further information on world trade and food:

>> www.germanwatch.org/handel/en.htm