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Understanding African markets

FOOD MARKETS IN AFRICA are probably the most vibrant in the world. Nowhere else do you find more small-scale entrepreneurs and micro-businesses making their incomes from the buying and selling of foodstuffs. The open market is of much greater importance in Africa than in industrial countries, where large corporations and government agencies control the exchange of resources within their management structures. In Africa the distribution of food is largely left to the invisible force emerging from transactions between millions of small businesswomen and men.

As a consequence, markets in Africa are strongly fragmented. Food products are traded in small quantities, and there are many steps in the value chain to take the product from the producer to the consumer. Millions of smallholder farmers produce small surplus amounts of fruits and vegetables, cereals and tubers, dairy and meat. These farmers live scattered throughout the country, often separated by long distances from the major centres of consumption. Thousands of small-scale itinerant traders travel there weekly to buy products to transport and supply the urban markets. In the cities, tens of thousands of micro-retailers buy small quantities of produce on credit, which they sell in a couple of days, after which they buy some more produce to resell. Finally millions of consumers buy small quantities of food products, often every day, as their wallets (and a lack of refrigerators) do not allow them to buy for the whole week at once.

This trade between millions of small-scale businesses takes place continuously, enabling consumers in the cities to buy fresh products every day. People may wonder how this fragmented system can actually work, as there are almost no formal market institutions to coordinate and support the trade (Fafchamps, 2004). In developed countries, markets are regulated through a complex system of rules, institutions and formal organizations that coordinate and support trade relations. But African markets function without many of the formal arrangements described below.

- **Standardization** When somebody buys food, she or he wants to be sure about the quality, the amount, and the safety of the produce. In Africa the formal systems to ensure reliable labelling, quality grading, objective weighing and food safety are often deficient. Most agricultural products are unsorted, and buyers need to personally inspect the produce to make sure that it is what she or he wants. Only a few agricultural sectors, mostly export commodities, meat and milk, are regulated by formal systems of standardization and quality assurance.
- **Contract enforcement** In any business transaction, breach of contract is an important risk. Buyers may not pay the seller for produce they took on credit; sellers may not supply the promised produce. Disputes may arise about the quality of produce, the exact amount, or possible contamination. In African markets, contract conditions, whether oral or written, are difficult to enforce through formal laws and regulations. Courts tend to work slowly and may be expensive. Even if courts were to work well, then how to get financial compensation from your business partner who often is small and has no capital assets to seize?
- **Market information** In Africa it is difficult to get reliable information on the supply, demand and prices of food products. It is equally difficult to get information on the reliability of buyers and sellers. Even though there has been a revolution in telecommunications recently, farmers and traders normally find it difficult to make informed decisions about when to buy or sell, to whom, where, and at what price. Formal systems for market information are either weak or absent. Buyers and sellers normally get the information they need through their personal networks.
- **Formal business organization** In many countries buyers and sellers are formally organized in, for example, farmer unions, trader associations, consumer organizations, and branch or sector platforms. These organizations not only represent their members' interests, but are also important in supporting trade: farmer unions bulk products, trader associations provide market information, consumer organizations demand proper quality standards, and sector platforms promote policy dialogue. In Africa these organizations tend to be weak or absent, and therefore markets are less well coordinated.

Hence, where farmers and traders in industrial countries can rely on a whole set of formal market institutions, in Africa they have to rely on themselves for getting food products from the rural hinterlands to consumers in the cities. This is a demanding task, full of challenges.

Challenges in agricultural marketing

Volatility

One of the main challenges in agricultural marketing in Africa is **volatility**. This means that market conditions change significantly over time, and vary widely

from place to place. There is a large variation in product quality because agriculture is not industrialized as in the EU and USA. Farmers are not specialized in a single crop, and they often use specific local varieties instead of the uniform, “improved” varieties offered by corporate seed companies. Prices fluctuate widely between areas, within a season, and between seasons. This is related to the dominance of rainfed agriculture, frequent harvest failures, the limited storage facilities, and the limited integration of markets due to poor roads. Within “normal” years, producer prices of staple food crops can be expected to double or more from immediately after the harvest to the “lean season” before the next harvest. Changes in consumer prices may be somewhat smaller, as the transport costs, which are a large part of the overall marketing margin, are more or less constant through the year (Poulton et al., 2005).

Integration of markets

Another major challenge is the **integration of markets**. Linkages between various markets in villages and cities tend to be weak due to poor infrastructure. Trade across national borders faces additional challenges: bureaucratic regulations, currency exchange, and differences in language and culture (see Box 2.1). Also the links with related product and service markets are weak. Farmers and traders have limited access to seeds, fertilizers, warehousing, processing, packaging, credit, insurance, transport, and other **business services**. This severely hinders the operations of their businesses, affecting their efficiency and growth.

Financial services

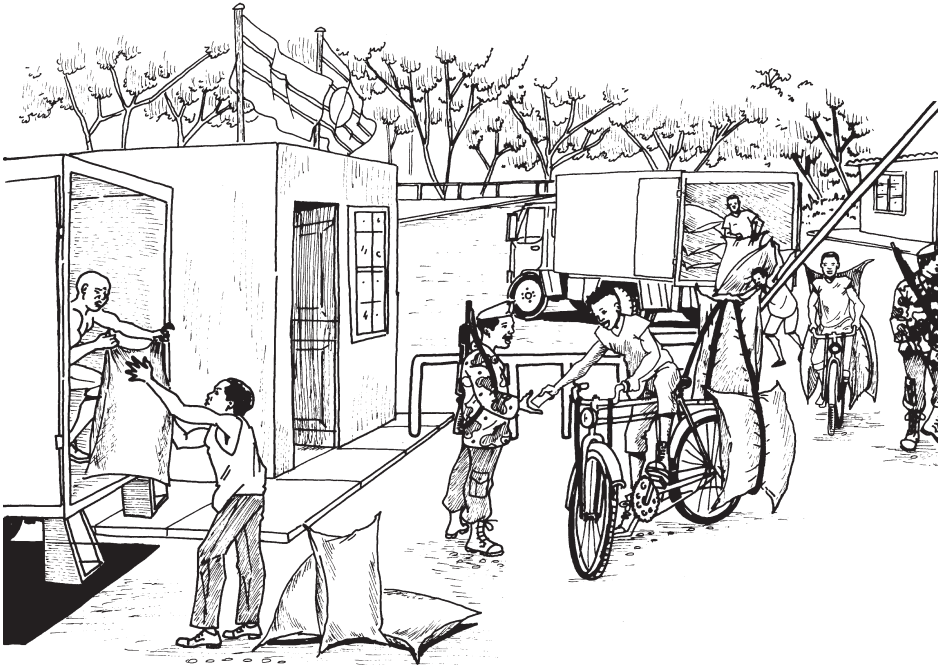
Particularly cumbersome is the limited access to formal **financial services** such as loans and insurance. Buyers and sellers are always in need of money, either for their businesses or for their families. If they know one another well, they often give each other informal credit. Depending on the market conditions, these loans flow either up- or downstream in the chain. At harvest time, when there is plenty of produce, traders may take farm products on credit. However, in the lean season, when there is little supply, traders may offer advance payments to farmers in exchange for the right to buy their products. These supply chain credit flows serve to keep the business moving, which is in the mutual interest of buyer and seller. But formal financial institutions seem to play no significant role in facilitating agricultural trade. Banks have few clients among farmers, who are generally considered not to be “bankable” as they have no collateral (or do not wish to use their major asset, their land, as collateral, so risk losing it to the bank). Traders often do have bank accounts, but they also find it difficult to obtain loans, also because of a lack of collateral. Micro-credit schemes may be a solution to some, but their outreach is limited, often to the cities only, and they operate with relatively high interest rates. The limited availability of formal capital for agricultural trading is one of the key factors restricting the size of business transactions and the growth of enterprises.

Box 2.1 Cross-border trade

Trading of food products across national boundaries is of great importance to Africa's economies and people. Cross-border trade is not only a business opportunity; it is crucial for food security. For example the countries in the eastern and southern African trade zones (COMESA and EAC) produce on average 22 million tonnes of maize per year, while the average consumption is approximately 16 million tonnes. This implies an average surplus of 6 million tonnes. Nevertheless there still are many places in these countries where there is a shortage of maize on the local market.

Hence, cross-border trade is very important. But there are many barriers that limit the extent and efficiency of this trade. The practice is often as follows:

- 1 Full trucks arrive at the border.
- 2 Before they cross the border the trucks are unloaded.
- 3 The merchandise is taken by bicycle traders across the border at a point where there are no controls.
- 4 On the other side of the border, an empty truck is waiting to be loaded and take the merchandise to its destination.



Why is this? It is not only to evade taxation. When Kenya, Uganda and Tanzania lifted the 2.75% import/export duty on maize in 2007, traders continued to use the "bicycle method". Apparently there many other barriers to cross-border trade:

- Unreliable crop forecasting and unreliable information about supply and demand
- As a result, ill-informed government policies, such as high import/export duties and import/export bans
- Laws that prohibit trucks that cross the border to bring merchandise back ("back haulage")

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Box 2.1 Cross-border trade (continued)

- Excessive paperwork, long queues, incompetent staff at the border
- Import/export licenses which are issued only in far-away capital cities
- Informal taxation, harassment, corruption at the border and along the way
- Different languages and currencies across countries
- Different quality standards and grading systems across countries
- The informal nature of the cross-border trade combines with money laundering and smuggling.

Possible solutions are:

- Reliable market information systems
- Reliable and harmonized market institutions (standards, contract enforcement, financial flows)
- Training of customs staff, and better facilities at the borders, including foreign exchange bureaus
- Training of traders on grades and standards and the importance of contracts and official documentation
- Public–private dialogue to know each other’s needs and adjust policies and practices accordingly
- Better regional economic integration, and national taskforces that adjust national systems
- In-depth research into the problems of cross-border trade to understand better why bicycle trading continues.

More information: Eastern Africa Grain Council, www.eagc.org

Marketing context

Then there is a series of marketing constraints that are related to the overall context of widespread poverty and low economic development in Africa.

- **Poor physical infrastructure** Poor roads, telecommunications and rural infrastructure raise the costs and risks of transport, and they increase post-harvest losses. The high costs of transport increase the margin that is needed for marketing and lowers the price that the producer gets at the farm gate. Also the facilities at marketplaces leave much to be desired. Access roads, areas for loading and unloading, storage facilities, security and sanitation could be greatly improved.
- **Limited purchasing power** Despite the emergence of an urban class that can afford to buy luxury products from modern retailers (see Box 2.2), in most of Africa the majority of both rural and urban households have limited purchasing power. They devote a large share of their income, often 60–80%, to buying food (Lyon, 2003). This implies that the opportunities for high-value products are generally limited. As a consequence, despite the many steps between producer and consumer, the process of value adding in the value chain is limited.

Box 2.2 Trends in food marketing in Africa

Food marketing chains in Africa are rapidly becoming more sophisticated. The underlying driver is changing consumer demands that emerge from rising living standards and urbanization. Consumption is shifting away from basic foodstuffs to fruits and vegetables, livestock and fish products, and high-value, often imported, processed foods. To cater for this demand, international retailers are increasingly penetrating African markets, and South African retailers are expanding elsewhere in the continent. African “domestic” supermarkets are becoming the dominant outlets for local fresh produce, compared with export markets.

The emergence of a concentrated, powerful retail sector is both a challenge and opportunity for local producers and supply chains. Modern retailers firms are setting up dedicated value chains as opposed to relying on traditional fragmented relationships in spot markets. The new business model is characterized by large volumes and slim margins, strict quality standards and traceability requirements, and distribution systems dominated by specialized wholesalers. The high requirements in terms of investment, technology and business skills suggest that small and remote farmers will be excluded from such markets. Nevertheless there are opportunities for small producers and traders who can organize themselves effectively to meet these demanding standards.

More information: www.regoverningmarkets.org

- **Limited business skills** Because of low levels of educational attainment, entrepreneurial skills are relatively undeveloped. Basic skills for business, like accounting and planning, are rare. Particularly farmers, used to producing for parastatal marketing boards for many decades, lack commercial knowledge to market their produce on their own account.

Business environment

Finally, in large parts of Africa, governments fall short in creating a favourable **business environment** for agricultural trading. Public policies towards marketing have regrettably tended towards one of two extremes (FAO, 1982). In the 1970s and 1980s many countries had rigid government controls over commodities that were considered of priority importance, such as export and basic food crops. With the structural adjustments in the 1990s, policies swung to the other extreme, a complete hands-off approach, leaving it entirely to private businesses to work out how the market should operate, without any government support. As noted above, many governments fail to provide the basic public goods that are required for markets to operate efficiently and reliably, such as mechanisms for contract enforcement and standardization of quality grades. Also, government investments in agriculture have steadily declined over the past decades, which is evident from the state of the rural infrastructure and agricultural research. The current levels of investment are utterly insufficient to unlock agriculture’s potential for economic growth (World Bank, 2008).

Paradoxically, at the same time the small business sector tends to suffer from over-regulation that imposes high costs on entrepreneurship and prevents start-ups and business growth. The World Bank has estimated the cost of starting a

Box 2.3 The informal economy in Africa

According to the World Bank, in 1999/2000 the informal economy in Africa was around 42% of the gross domestic product. Zimbabwe, Tanzania and Nigeria were at the high end, with approximately 58%. At the lower end were Botswana and Cameroon, with around 33%. The suggested underlying factors are high and complex taxes combined with excessive government regulation in such areas as business start-up and labour (World Bank, 2003).

The informal economy is usually perceived as a problem, because it takes place outside the reach of law. But there are other ways to look at it. In March 1992, then-president of Nigeria Ibrahim Babangida shared an interesting perspective:

“Notwithstanding the drawbacks in the informal sector, such as the use of child labour, the informal economy is the base of the future growth of poor African economies. It is the sector that is most likely to absorb the growing numbers of people entering job markets. In most African countries, the public sector is evidently in retreat and unable to provide many new job opportunities... Frankly, I have kept on asking my economists why is it that the economy of this country has not collapsed up to now. What is it that is keeping it up? Surely it is not our knowledge, it is not our theories. It is not something we have read. I still have not found the answer. The Nigerian economy has defied all economic theories and I think we should be grateful that we have a society such as this” (Obadina, 2006).

business to be very high in Africa compared with other regions of the world. In sub-Saharan Africa on average there are more than 11 separate procedures to be undertaken, compared with 6 in the OECD, and it takes 62 days compared with 17. Compared with the cost of living in each region, it is six times more costly in Africa to start a business than in the OECD countries. In addition, traders are often heavily taxed in moving goods from one district or region to another, and may have to make informal payments – bribes – to public sector authorities on the road to ensure smooth travel. Some activities require people to buy licences, and health, safety and other regulations may impose punitive costs.

These adverse policies tend to push agricultural marketing into the so-called informal economy. These are economic activities that are conducted outside the official regulatory and fiscal frameworks. In many African countries in recent years the informal economy has been growing (see Box 2.3). This creates a vicious circle with the problems mentioned earlier: lack of business organization, limited access to formal finance, unreliable labelling and quality standards, etc.

The role of traders

Despite the many challenges in agricultural marketing, consumers in the cities are somehow provided each day with fresh fruits and vegetables, milk and meat, grains and tubers – all at affordable prices and in the appropriate amounts. This remarkable job is done by a myriad of small and medium-sized traders. The daily distribution of food, one of a country’s most important concerns, is the principal function performed by agricultural traders.

Box 2.4 Many kinds of traders

Travelling traders meet the farmer at his or her farm to collect the produce. They spend their time mainly on the road, bringing goods from farmers or small village markets to an urban market. Travelling traders usually pay the transport costs. In many African countries, travelling traders have a bad reputation, and they are often called “middlemen”.

Resident wholesalers stay in the larger markets to receive goods from travelling traders and large farmers, which they resell to retailers and large, regular buyers such as schools, restaurants and prisons. Each commodity is sold in complete wholesale units (such as 100 yams, or a crate of tomatoes), so consumers planning a big family event may also buy here.

Retailers sell goods in whatever quantity a consumer wishes buy at one time. They also offer goods at convenient times and in convenient locations, including small neighbourhood markets and roadside kiosks.

Hawkers carry goods for sale from house to house by foot, or sometimes on a bicycle.

Brokers match up buyers and sellers and help them negotiate a price. They do not buy the goods themselves and often earn a commission, so they are not really traders but service providers.

Exporters/importers buy and sell goods across national borders.

There are many kinds of traders, who operate in different parts of the food marketing chain (Box 2.4). Each of these traders has specific functions. Normally, several types of traders are involved in getting a product from farm to consumer. We focus on four of these types below.

Travelling traders

Travelling traders go to the farms to buy food products and transport these to a market elsewhere. Some slog on foot or bicycle through remote districts, collecting produce or animals from widely scattered farmers and processors in small amounts until they have enough to bring to town. These include many part-time traders who spend most of their time farming. This type of trading can be a risky operation – not only in terms of physical security, especially for female traders, but also in terms of their business. Travelling traders normally pay the farmers in cash and assume ownership of the produce at the farm gate. Then any losses that may occur because of unpredictable changes in price levels, transport charges, product losses or truck breakdowns are no longer the farmers’ concern. The trader must bear all of the costs, predictable and unpredictable, until he or she in turn sells to someone else.

Wholesalers

Some travelling traders sell directly to consumers at their houses, or to larger customers such as hotels or schools. But most often the travelling trader sells the complete shipment to a wholesaler who operates only within a particular marketplace. The wholesaler buys from travelling traders and resells to retailers and

large customers such as processors or public agencies. Wholesalers normally bulk the products and they may also grade and store them for a while. Wholesalers are usually well informed about the buying and selling prices in their marketplace. The travelling trader can make an agreement always to patronize a certain wholesaler, encouraging him or her to offer a fair price quickly and to deal honestly. Then the wholesaler must make sure to be available whenever a travelling trader may arrive with the produce. When such relations exist, wholesalers often provide credit to travelling traders and retailers so they have working capital. Large wholesalers may employ travelling traders to purchase produce for them – these are then called “buying agents”.

Retailers

Retailers include a wide range of entrepreneurs, from prosperous stallholders in major markets, to itinerant pedlars who circulate between a few remote villages. In between are retailers at roadside stands and small markets in villages or urban neighbourhoods. They sit for hours in the sun and rain, selling goods in the small quantities that poor consumers can afford. The larger retailers buy in wholesale units from established wholesalers. Small-scale retailers often buy in smaller amounts from these larger retailers. The smallest sell in tiny piles on a table beside their houses, or carry a tray of goods on their heads from house to house. In many countries, retailing is an important source of employment for those with few other opportunities. Many retail traders also work part time, selling on credit at their workplaces or spending the rest of the work day preparing goods for sale, in housework or farming.

The retailers provide the service of consumer targeting. They move the goods to a convenient location and offer them in the amounts that consumers prefer. For example, a cooking-oil seller may buy from wholesalers different kinds of oil in large, recycled 10-litre kerosene tins. She measures it out for her customers to take home in beer and soft-drink bottles. The poorest households buy oil for one meal at a time, so they choose among her collection of tiny perfume bottles as their measure, sometimes bringing the cooking pot from home to pour it into. Hard-pressed mothers can save time by sending a small child to a familiar trader near their home to buy a handful of tomatoes or onions needed for the family meal.

So the travelling trader, wholesaler and retailer all have a specific role in the value chain. Each of them specializes in a specific set of functions to get the product from the farms to the cities. However, not all value chains involve all three sorts of traders. Sometimes farmers sell directly to wholesalers, without intermediation by travelling traders. Sometimes travelling traders sell directly to retailers, without a wholesaler in between. Generally, as the chain becomes operationally more complex, more types of traders need to be involved. For example, long-distance trade tends to require the services of various traders to ensure that the product moves smoothly without delays. In perishable crops there are usually only a few steps between the producer and the consumer.

Brokers

In specific circumstances, the services of a broker may be required. Brokers come in when the buyer and seller cannot find or meet each other, or when they need a local person to look after their interests. This occurs often in high-value export chains, but it is also reported in domestic grain markets, such as in Ethiopia (Gabre-Madhin, 2001).

Finally it is important to note that agricultural traders not only distribute products to the consumer but also offer services to farmers. Obviously they provide for the main market channel through which farmers obtain income from their products. In addition, traders may provide farmers with inputs, technical advice and market information. Importantly, traders bring liquidity into the chain, paying the farmer in cash or providing them with urgently needed credit. Often popular opinion fails to take these services to farmers into account. This book will explore how traders can strengthen their service provision to farmers and act as motors for rural development.

The costs and risks of trading

Traders perform their distributive function in the food chain in return for a certain share of the consumer price. People often think that this share is too much: that traders take too large a portion from the value chain. It is true indeed that the value share of trading in Africa is relatively large, as compared to developed countries. But it is almost impossible to compare these situations. In developed countries traders can deal in large volumes, and the value chain is highly efficient in terms of handling, distribution and communications. But African traders deal only in small quantities, and they operate in chains that are far from efficient. The relatively large marketing margins do not automatically imply that African traders are greedy and exploitative. We need to take a closer look at their costs and risks.

Agricultural trading in Africa is in general a high-risk business, because there is no support from formal institutions such as quality standards, market information and mechanisms for contract enforcement. Roads and rural infrastructure are inadequate, and widespread poverty raises the likelihood of theft and swindling. Among the many risks of trading are: non-payment by clients, lack of supply, large price fluctuations, theft, physical insecurity, wastage of produce, "informal taxation" at road blockades, and cheating on quality grades, just to name a few. Traders can take no insurance against these risks, so they need to compensate in the margin that they make on the produce.

Some of the major costs faced by traders are as follows (the figures are based on research in Benin, Ethiopia, Malawi and Madagascar reported by Gabre-Madhin, 2001; Fafchamps and Gabre-Madhin, 2002; and Fafchamps, 2004):

- **Transport** The overwhelming majority of traders have no motorized transport, so they need to hire it from others. The physical transport of produce can account for 40–60% of the marketing margin.
- **Handling** These are the costs of loading the produce at the time of purchase and off-loading at the time of sale. They also include the costs of packing the produce, and of the packaging material such as sacks or crates. Research shows that these costs can represent 20–30% of the marketing margin.
- **Search** Normally there is no public market information, so traders may spend a long time looking for crops or animals to buy. They also spend money on bus tickets, lodging, meals, etc. These costs vary significantly from one situation to another, but they can represent up to 15–20% of the marketing margin.
- **Taxes, tolls, tips and fees** These include taxes from the government, tolls for market stalls, fees for brokers, membership fees, and tips at road blockades. Research shows that these costs account for 10–15% of the marketing margin.
- **Product losses** Traders inevitably lose some of the produce that they buy. Among the many causes are delays in transport, theft, improper handling, lack of storage space and refrigeration, post-harvest pest and disease attacks (for stored produce), selection and grading, inadequate packaging, and unsold produce. Obviously the losses are likely to be larger for perishable produce.

Research also shows the costs that African traders do not have. They have few finance costs, as they make little use of loans from banks and have few capital assets such as vehicles or warehouses. They also have low storage costs, which implies that they tend to sell the produce as quickly as possible and thus achieve high capital turnover, rather than store it and speculate on price increases (research shows that contrary to popular assumptions, storage is relatively unimportant, even for grains). Finally, traders have few personnel costs; most are self-employed entrepreneurs with nobody assisting them.

All in all, the marketing margins of traders should be interpreted in relation to the costs and risks that they face. It is impossible to generalize about the profitability of trading in Africa. It depends primarily on how competitive the market is. When there are only few traders and large numbers of suppliers and consumers, you can expect high profit margins in trading. But in other situations traders may compete so fiercely that their profit margins are low or even negative. Research has found that profit margins in the same products were 8.4 times larger in Malawi than in Benin, because the latter has a well-evolved, competitive market system (Fafchamps and Gabre-Madhin, 2002). The competition between traders varies from marketplace to marketplace, within the marketplace from commodity to commodity, and within the commodity from season to season. Traders may take advantage of situations where there are few market outlets, as much as farmers may take advantage when supply is scarce. This book will look into the margins in the value chain, and examine experiences where farmers and traders share information about their profit margins.

Box 2.5 Women traders and gender bias

In large parts of Africa, women play a key role in food production and trade. Women often have important tasks at the farm, such as weeding and watering the crop. Women also play a lead role in post-harvest activities on the farm, such as shelling grains, and storing, grading processing and marketing crops. Within the trade system, many women work as travelling traders, wholesalers and retailers.

A large proportion of women traders are found in the informal economy. It is relatively easy to operate in the informal economy since there are few entry requirements such as skills or capital. Trading thus becomes the best option for many women who have not acquired the education needed to enter the formal economy. Informal trading also enables women to combine their unpaid care work in the family with income-earning activities.



Compared to the roles of men, the position of women in the food marketing chain tends to be more vulnerable and less remunerative. When men and women are engaged in the trading of the same commodity, such as grains, women will tend to do the retailing while men do the wholesaling. Men tend to be engaged in capital-intensive business while women engage in labour-intensive activities which require less capital, such as travelling trading and petty trading in the marketplace.

Despite the central role of women traders in Africa, policies that regulate and support trading are generally gender-blind and fail to recognize the specific problems women face:

- The engagement of more women in low-income trading activities makes them more vulnerable than men to price fluctuations, economic shocks, harvest failures, etc.
- Women traders have more limited access to resources than their male counterparts. It

Continued...

Box 2.5 Women traders and gender bias (continued)

is often impossible for women to get credit because they do not own property, such as land, to use as collateral for loans.

- Women traders are prone to all sorts of vulnerabilities, including ill-health, accidents and injuries, due to the unhygienic and unsafe environment within which they operate. Many women traders are in their reproductive age, which makes good marketplace facilities even more important for them (health facilities, child care).
- Government policies create barriers for both women and men traders. But in addition women face unequal gender and power relations. Sexual harassment by those in authority is a problem faced by many women traders.

Given the importance of women traders in the economic development of Africa, it is important to strengthen women's abilities to run and expand their trade. Barriers should be removed to ensure easy accessibility of credit. Women traders should be consulted on policies that affect their working environment, and their needs for a safe and clean marketplace should be taken into account.

Social networks in trading

Much trading in Africa takes place as a “cash-and-carry” transaction. Buyer and seller meet personally to do business, inspection of the goods is done on the spot, and payment is in cash. There is no placement of orders, no invoicing, no brand name, no product specifications, no quality guarantee, no payment by check or through a bank. The only “paperwork” involved is the money that changes hands to pay for the product. To Western observers this form of trading may resemble a chaotic flea market, where you need good luck to get a good deal. But this first impression is misleading. Trading in Africa is largely structured through social relations and networks. Successful traders have a web of longstanding interpersonal relationships with their suppliers, clients and peers. These relationships are a key business asset that helps to reduce the risks and costs that traders are facing in their businesses.

Many traders have long-term relationships with farmers, buying from them year after year. These preferred supply relations serve to reduce risks for both parties: the farmer has a secure market outlet, and the trader has a secure supply base. They also facilitate the exchange of credit and the sharing of information on market conditions. However, despite these mutual benefits, cooperation between farmers and traders is relatively underdeveloped. Their inherent conflict of interest over prices puts the relationship under pressure. Most farmers are sceptical about cooperation, claiming that traders are not trustworthy and only interested in their personal gains. Traders tend to think the same about farmers, complaining that farmers fail to deliver produce that they promised, or hide low-quality produce at the bottom of bags or crates. Research in central Ghana shows that only one-quarter of farmers maintain longstanding relations with traders (Poole et al., 1999). In general, traders seem more interested in having regular suppliers. Half

of the traders in Kumasi market, central Ghana, said they maintain longstanding relations with farmers (Clark, 1994). Also in Madagascar, half of the traders reported they had regular suppliers (Fafchamps, 2004).

Long-term business relationships become more common as you go downstream in the value chain. Travelling traders, wholesalers and retailers tend to have close relations to ensure smooth business operations. When selling on a wholesale market, the travelling trader needs a friendly wholesaler to dispose of her goods as quickly as possible, so she can go on the road again to buy more goods. And when buying at a wholesale market, the travelling trader needs a preferred wholesaler to get a purchase at a good price and quality, especially in times of scarcity. Their major problem being a lack of working capital, retailers tend to buy exclusively from particular wholesalers or travelling traders. This allows them to get produce on credit, and they may even get discounts if they fail to sell all the produce. The wholesalers, in turn, may use the dependency of travelling traders and retailers to prevent others from selling in the market, thereby safeguarding the interests of their businesses.

Often the cooperation between traders is partly based on ethnic and gender ties. It is common for traders in a particular commodity to come from a specific ethnic group associated with that commodity's producing area. In addition to a common language, these ethnic ties can provide habitual commercial practices, methods of settling disputes and shared cultural values that make doing business more pleasant and extending credit less risky. For similar reasons, men or women often specialize in different commodities. Family ties are particularly important for startups. Extended family members can provide training, share market stalls, give startup capital, guarantee loans, and act as reliable suppliers or buyers. In some cases, larger businesses are staffed primarily with family members, paid or unpaid.

The social networks among traders can carry such serious economic weight that they actually function as trader associations. Many of these are informal forms of organization, where traders provide support to one another to cope with the many challenges in their business. Instead of written rules and regulations, they rely on mutual loyalty and a set of unwritten norms and values. Maintaining the social side of these relationships by attending family weddings and funerals, for example, can be essential in strengthening commitment among group members.

Associations offer various services to their members to reduce the costs and risks in their businesses. There is a general moral obligation to help each other with welfare support or emergency credit in case of illness, family crisis, or theft. The traders rely on one another to share information on prices, supply and demand, road conditions, and creditworthiness of farmers. Cooperation in sharing a lorry to bring their goods to the market gives small-scale traders access to helpful economies of scale. Informal dispute settlement is an essential function of trader associations. This avoids the long delays typical of court cases, and enables both parties to return promptly to work. Traders who respect these informal institu-

tions can extend credit more confidently without written contracts. The association further allows for more effective negotiation with the local authorities over market taxes, facilities at the marketplace, and other policy issues. Organized traders may also bargain as a group with farmers, transport drivers, or market porters.

Many trader associations have recently started to formalize their activities. They register officially, agree upon statutes with written rules and regulations, elect a board of directors, and install an office with an address and telephone number. Often they also start to formalize the value chain by introducing, for instance, calibrated weights and measures, or registration forms to trace the product, the buyer and the seller. Some associations try to guarantee good business conduct by registering traders and giving them an identity certification. The underlying drive for formalization is to improve the traders' relations with the outside world. It increases their access to formal financial services, such as bank loans, micro-credit and insurance. It improves their credibility and negotiating position vis-à-vis the government. It improves their general public image and it may open doors for cooperation with farmer organizations and donor agencies (FAO, 2005).

Trader associations are often accused of forming cartels, exploiting both farmers and consumers. It is indeed observed in many marketplaces in Africa that traders control the supply entering the market and the number of traders allowed to sell. Traders say this is necessary to reduce oversupply and prevent gluts and product deterioration, as there are generally no adequate storage facilities. However, the farmers then suffer because they cannot sell all their produce. Television pictures of rotten tomatoes are powerful, stirring up public opinion against the trader associations. But several considerations should be borne in mind for a more informed judgment.

First, supply control is customary practice in food chains all over the world. In industrial countries, it is an important and legitimate field of supply chain management termed "effective consumer response". Supply and demand need to be well matched, otherwise business is not sustainable.

Second, research confirms that trader associations prevent others from selling on the marketplace, but also shows that direct price manipulation is very rare. The degree of competition varies from marketplace to marketplace, within the marketplace from commodity to commodity, and within the commodity from day to day.

Finally, the costs of *not* having trader associations are not known. Associations allow large numbers of poor women to participate in a very high-risk business by performing functions that in industrial countries are fulfilled by formal organizations such as courts, banks, inspection agencies, supermarket chains and commodity exchanges. African food distribution chains operate in a volatile, high-risk environment with poor physical infrastructure and hardly any support from formal legal or financial institutions. Under these circumstances, trader associations are a very efficient way to organize food supplies. They enable flexible cooperation and coordination between large numbers of small-scale businesses, without the rigidities associated with large companies or cooperatives. This makes

trader associations better suited to the conditions of African markets. The relative absence in Africa of large distribution firms or supermarkets chains testifies to this (Peppelenbos, 2005; Fafchamps, 2004).

The history of trading in Africa

The problems of agricultural marketing in Africa have deep roots in history. Also the popular opinions about traders cannot be well understood without taking the past into account. Therefore this chapter ends with a brief historical background on trading in Africa, taking us from the colonial period, early independence and the structural adjustments in the 1980s, to contemporary times.

Colonial period

Functioning markets, long-distance trading networks, and taxation of trade by traditional authorities have been reported as early as the 9th century. But the colonial powers did not respect existing trading patterns. They intervened in agriculture to promote export crops in ways that acted against the trade function of private agents. For example, in 1905 the British Cotton Growers Association was granted monopoly rights to purchase cotton from the whole of West Africa. In the decade prior to World War II, state marketing boards were promoted to serve European strategic interests. Crops such as palm oil, cocoa and groundnut were brought under government control. At the same time, the colonial powers promoted producer cooperatives as a way to support the poor rural population and facilitate the transition to market-oriented agriculture. Private trading was seen as inefficient, disorganized and unresponsive, and policies explicitly aimed to supplant traders to reach economies of scale and allow better returns to farmers. Private trade was by no means extinguished, however.

Early independence

Many newly independent countries continued the colonial model of strict government control and state-promoted producer cooperatives in trading. The common view was that traders were enriching themselves at the expense of the farmers. In Tanzania, traditional cooperatives were transformed by the government's *ujamaa* policy of community advancement, which led to a loss of their autonomy and self-reliance. The government of Zimbabwe used cooperatives as a vehicle for transforming the economy and redistributing income and assets. Particularly where trade was in the hands of ethnic minorities, such as in Uganda (Asians) and Senegal (Lebanese), it was felt that the nationalization of trade would assist in the "Africanization" of the economy. Many governments fixed food prices and established parastatal companies to ensure food security, stabilize producer prices, and maintain low consumer prices. In Tanzania by the end of the 1970s, nearly 400 parastatals operated in the agri-business sector, and the prices of nearly 1,000 commodities were controlled. In that same period parastatals were administering one-third of the formal economy in Niger. Still in most parts of

Africa, private trade remained vital for the distribution of foodstuffs in local and export markets.

Structural adjustment

The expansion of state marketing could not have been undertaken without the aid from bilateral and multilateral donors. Marketing boards were a convenient counterpart for donors. Nevertheless, poor performance of state-controlled marketing led to substantial policy changes. Since the 1980s, international agencies such as the World Bank and the International Monetary Fund forcefully urged on the “structural adjustment” of African economies. The intention, in brief, was to introduce free competition. The new policies foresaw a key role for the private sector, while governments would need to be instrumental in developing an active and competent private sector. Regrettably, the latter part of the equation was poorly implemented. Most countries swung from state control to a complete “hands off” approach, leaving it entirely to private businesses to work out how the market should operate without any government support. As a result, agricultural sector performance has been disappointing in most African countries since the 1980s.

Growth with equity

Disappointing outcomes of structural adjustment led to the belief in the early 21st century that economic exchange should be “coordinated”, rather than “free”, to make markets work for the poor. And so the focus shifted from liberal market solutions to innovations in the institutional environment to optimize the role of various stakeholders. This includes both private sector initiatives, such as formalized standards and contracts, and public policy interventions like efficient commercial courts and inspection agencies. Direct intervention in markets is still regarded with suspicion, but there has been renewed interest in diverse forms of producer organization. Moreover, a clear role is now envisaged for civil society organizations in promoting market linkages, consumer awareness, and corporate social responsibility. It is within this philosophy of broad-based economic growth and multi-stakeholder collaboration that this book explores the opportunities for building cooperation between traders and farmers in Africa.

