Economics and Sociology Occasional Paper No. 2206

FINANCING HORTICULTURAL EXPORTS IN SUB-SAHARAN AFRICA

by

Geetha Nagarajan

Richard L. Meyer

Douglas H. Graham

and

Korotoumou Ouattara

July 1994

Paper presented at the conference
Financial and Marketing Strategies for African Exporters of Horticultural Products

Organized by The Ohio State University and The Bureau for Africa/ Office of Analysis, Research, and Technical Support/Food, Agriculture, and Resources Analysis Division, USAID
Friday, August 19th and Saturday, August 20th, 1994
Holiday Inn
Harare, Zimbabwe

Rural Finance Program
Department of Agricultural Economics
The Ohio State University
2120 Fyffe Road
Columbus, Ohio 43210-1099

Abstract

Several countries in Sub-Saharan Africa (SSA) have engaged in structural adjustment and financial sector reforms to either establish or strengthen their financing facilities. Unfortunately, the liberalization of financial markets in these countries has had little direct impact on the expansion of horticultural exports.

The purpose of this paper was to examine more closely the argument about credit constraints and identify possible ways to improve the supply of financial services for horticultural exports in SSA countries. The data are drawn from case studies conducted by the Ohio State University team in six SSA countries including Ghana, Madagascar, Rwanda, Swaziland, The Gambia and Uganda during 1993-94. The methodology in the case studies was limited to reviewing the large number of studies already available, and to supplement them with interviews with key informants involved in horticultural exports.

The main conclusion that emerges from the country studies is that export financing is not the most important factor limiting export growth compared to removing policy distortions, poor infrastructure and weak support systems for entrepreneurs, and the demanding requirements for production and post-harvest technology including packaging, handling, and marketing.

TABLE OF CONTENTS

I. Introduction 1

II. Export Promotion Policies in Selected Sub-Saharan African Countries 3

III. Pre- and Post-Shipment Financing for Horticultural Exports 6

IV. Pre- and Post-Shipment Insurance for Horticultural Exports 10

V. Financing Horticultural Exports: What Role for Government, Donors and Formal Banks? 11
- A. Large Farms 12
- B. Medium Sized Farms 12
- C. Small Farms 13
- D. Role for Governments, Donors and Formal Banks 13

VI. Conclusions and Policy Implications 16

References 25

LIST OF TABLES

Table 1. Comparison of Selected Macroeconomic Policy Indicators from Selected African Countries 18

Table 2. Current Export Promotion Policies for Horticultural Exports in Selected African Countries, 1993/94 19

Table 3. Relative Importance of Diverse Sources of Pre- and Post-shipment Finance of Horticultural Exports: Summary of Results from Selected African Countries 21

Table 4. Formal Financial Institutions: Number, Loans and Advances to Selected Sector, and Lending Rates in Selected African Countries 22

Table 5. Principal Bearers of Pre- and Post-shipment Risks for Horticultural Exports: Summary of Results from Selected African Countries 23

Annex Table 24

FINANCING HORTICULTURAL EXPORTS IN SUB-SAHARAN AFRICA

by

Geetha Nagarajan, Richard L. Meyer, Douglas H. Graham, and Korotoumou Ouattara

I. Introduction

Financial sector reforms have been launched in several Sub-Saharan African (SSA) countries to either establish or strengthen their financing facilities. Targeted credit programs are being phased out. Financial institutions are being recapitalized, and several new privatized financial institutions are emerging in many countries. Furthermore, improved macroeconomic conditions and policies have provided stimuli for new foreign and domestic investments. Moreover, with the declining world prices for traditional agricultural commodities, SSA governments have placed priorities on non-traditional agricultural exports (NTAEs) that include horticultural produce. The response to these changing economic conditions is noticed in increased production, and expansion in inter and intra regional trade (World Bank, 1994).

Liberalization of financial market, however, has had little direct impact on the expansion of horticultural exports in many of the SSA countries. Most of these export activities are primarily self-financed and, secondarily serviced by informal supplier's credit, joint ventures and venture capital funds. Formal financial institutions, especially domestic commercial banks, play a negligible role in financing the horticultural subsector. While established exporters can access international capital markets to finance some of their short-term requirements, the majority of medium and long-term investments are difficult to finance by formal sources. The lack of access and/or the high cost of formal credit for investments and working capital has been frequently mentioned as a major constraint faced by exporters and producers of horticultural crops. Indeed,

access to adequate funds at reasonable cost has been stated by many entrepreneurs as an important determinant of their competitiveness among the participants in the horticultural subsector.

Credit constraints, however, are only one among several constraints limiting horticultural exports. The lack of infrastructure facilities, research and extension services, international transportation facilities and market information profoundly impact exports of horticultural produce. But, policy makers and donors often perceive "finance" as a convenient vehicle for export promotion and isolate it as "the constraint" to justify intervention into financial markets through special targeted programs. For policy implications, it is important to examine if the financial constraint is so important to justify the emphasis given to it among the several constraints faced by the exporters.

The purpose of this paper is to examine more closely the argument highlighting credit constraints for horticultural exports in SSA. The data are drawn from case studies conducted by the Ohio State University team in six SSA countries including Ghana, Madagascar, Rwanda, Swaziland, The Gambia and Uganda during 1993-94. Detailed information on individual countries can be found in Baydas et al.(1994), Camacho (1994), Meyer et al. (1994), Nagarajan et al. (1994), and Ouattara et al. (1994). The methodology in the case studies was limited to reviewing the large number of studies already available, and to supplement them with interviews with key informants involved in horticultural exports. Emphasis was given to the fresh fruit and vegetables subsector. The six countries chosen for the case studies have undertaken structural adjustment programs and emphasize horticultural exports. They, however, exhibit a wide variety of performances in response to macroeconomic adjustments and export promotion policies. The large improvements noticed in Ghana and The Gambia are in sharp contrast to deterioration noticed in Rwanda even before the recent tragic events that have engulfed the country (Table 1).

This wide variation among the case study countries, therefore, provides a rich base to compare and contrast some of the findings of this paper to derive policy implications.

The paper is organized as follows: we first review and assess export promotion policies and financial schemes in the six countries and, second, identify possible ways to improve the supply of financial services for horticultural exports. Specifically, we will discuss: (i) the linkages between formal and informal financial markets and how they function for participants in horticultural export activities, (ii) some of the success stories of financial institutions providing financial services to horticultural exporters, (iii) mechanisms that facilitate producers and exporters to resolve their financial problems to compete in international markets, and (iv) examine the effectiveness of policy reforms in opening up new channels of finance for horticultural exports.

II. Export Promotion Policies in Selected Sub-Saharan African Countries

The export promotion policies stimulating horticultural exports in the case study countries are summarized in Table 2. The ranking given to several variables is undoubtedly subject to different interpretations and judgements derived from publications and interviews. On the one hand, exchange rate policies range from good in Ghana to poor in Rwanda indicating the level of export support or penalization prevalent in the country. In general, a poor exchange rate policy favors imports over exports. While foreigners face restrictions on land use and investment in Uganda, they are permitted to lease and operate land in Ghana and The Gambia (World Bank, 1994). Access to long-term leases in Ghana and The Gambia for foreigners has encouraged several experienced expatriates to develop large integrated horticultural operations. On the other hand, all the six countries have removed restrictions on export licenses, repatriation of foreign

exchange earnings, export taxes, imports of inputs required for exports, and price controls on inputs for production. In addition, liberal income tax breaks are offered to investors in Ghana, The Gambia, Swaziland, and Uganda (World Bank, 1994).

The overall environment for investment in the horticultural sector, however, is mixed. It ranges from good in Ghana to poor in Rwanda (World Bank, 1994). Several factors contribute to this situation. All six countries have not yet adequately developed their infrastructure facilities that are important for the production and marketing of horticultural crops. Government investment in building public infrastructure has been very minimal. For example, in Uganda, public investment as a share of GDP was 4.3% while that of private investment was 9.5% in 1993 (Bank of Uganda, 1994). This is reflected in poor internal road transport facilities and cold storage facilities at air and seaports. In contrast, countries such as Cote d'Ivoire, Kenya and Zimbabwe have invested heavily in developing their infrastructure facilities to increase horticultural exports (Harris, 1991).

While financial sector reforms have been undertaken and interest rates on deposits and loans are liberalized, the availability of financial services for NTAEs has been limited. Export financing facilities from governments have been negligible. Central bank refinancing facilities provided to commercial banks that lend to NTAEs in The Gambia, Swaziland, and Uganda are rarely used due to several bureaucratic constraints and the reluctance of commercial banks including public commercial banks to intermediate between the exporters and the central bank (Nagarajan et al., 1994; Meyer et al., 1994). Indeed, the few loans granted under the Uganda refinance schemes were actually direct loans from the central bank to the exporters referred by the commercial banks. Similarly, the export guarantee schemes in Uganda and Swaziland were seldom used by non-traditional exporters for the same reasons as stated for use of export

refinancing schemes (Meyer et al., 1994)[1] Furthermore, commercial banks prefer a 100% collateral from the borrowers compared to the loan guarantee schemes due to: (i) loan guarantee schemes cover only 70-75% of losses, and (ii) settlement of claims is cumbersome. Our research in Ghana and Uganda also revealed that special government institutions such as the Ghana Investment Center, the Ghana Export Finance Company, the Uganda Export Promotion Council and Uganda Investment Authority have also played only a limited role in financing NTAEs including horticultural exports.

The majority of government programs rarely support small producers who are not directly involved in exporting. Several producers function as outgrowers or as independent growers for exporters of horticultural crops.[2] Also, new and small exporters are usually excluded from export finance programs since the governments have not formulated effective mechanisms to provide services to them. In addition, post-shipment financing and insurance are not adequately addressed by governmental programs despite their importance in horticultural export development programs. Post-shipment financing is important because of the long delays in the payments received from overseas importers. Post-shipment insurance is required to cover losses that

---

[1] Export Guarantee Scheme in Uganda is a protection for commercial banks against losses in pre-shipment or post-shipment loans to exporters. The guarantee is expected to encourage banks to increase their loans to non-traditional exporters and not to relieve the banks of the responsibility of monitoring risky loans. However, the scheme in Uganda is not well defined and is often subject to political interventions (Harris, 1991). Ideally, refinancing schemes should be managed independently of general monetary restrictions to maintain consistency in funding (Fitzgerald and Monson, 1989).

[2] Outgrowers are producers contracted by buyers to sell a prescribed quantity of a specific commodity at the time of harvest. Buyers may also extend financial and technical assistance to these producers for their promise of the sale of their produce at harvest time. Independent growers are producers who are not bound by any forward contract and are free to sell to the highest bidder.

occasionally occur in transport and shipping, especially where cold storage facilities are inadequate.

In general, government programs to promote horticultural exports have often been a response to a perceived market failure; the more repressed the economy, the more are special government programs designed to offset other types of discrimination or biases toward exports. The lack of special government programs in the above countries can to some extent be an indication of liberalized economies. However, the ineffectiveness of special programs implemented in some of the countries need to be highlighted. Given the inefficiencies of government programs and policies to promote horticultural exports, the next section elaborates on sources of pre and post shipment finance available for horticultural exports.

III. Pre- and Post-Shipment Financing for Horticultural Exports

At the pre-shipment stage, finance facilitates investments made in production and in the purchasing of inputs used by producers/producer-exporters, and purchase of produce by pure exporters who buy from outgrowers. Post-shipment financing is required to: (i) pay for transportation costs, (ii) extend supplier's credit since overseas buyers generally pay on a deferred basis and, (iii) reduce substantial risks involved in the transportation and marketing of the produce in foreign markets (Rana and Nichols, 1990).

Several financial sources exist for financing horticultural exports ranging from formal banks to informal money lenders. Despite the varied performance due to adjustments in macroeconomic policies among the case study countries, the mechanisms observed to finance horticultural exports has been similar. The relative importance of diverse sources of pre and post

shipment finance observed in the six case study countries are summarized in table 3. The financing of horticultural exports can be characterized as follows.

(i) Self-finance dominates both pre and post shipment financing. The funds are usually accumulated through retained earnings. Pure producers selling to exporters often participate in informal group activities such as Rotating Savings and Credit Associations (ROSCAs) to save and finance their business. Several of the large producer-exporters are, however, observed to be conglomerates involved in other businesses that cross-subsidize their horticultural export operations;

(ii) On the one hand, informal finance through supplier's credit is frequently observed at all levels flowing upward from producers to importers. On the other hand, a limited amount of buyer's credit is reported to be extended downward by exporters to their established outgrowers as noticed in Uganda and Madagascar. Informal finance from friends and relatives and fellow traders (as noticed in Rwanda) are also commonly observed.

(iii) Some NGOs in The Gambia, Ghana and Uganda provide grants and loans in a few cases to pure producers to acquire and prepare land and purchase inputs. But these Financial services to horticultural producers are designed largely to create income generation activities and to improve the nutritional level of the households rather than to boost horticultural exports;

(iv) Joint ventures with foreign importers who provide capital and information to exporters are emerging to finance investment and working capital needs at pre-shipment stage, and marketing costs at post-shipment stage. Examples can be cited from Ghana and Uganda;

(v) Venture capital funds are available for substantial investments at the pre-shipment stage. An example here is Uganda Rose exporters (Meyer et al., 1994);

(vi) Off-shore banks provide services at the post-shipment stage through the provision of letters of credit (L/Cs). The large producer-exporters with established overseas networks and offshore banking accounts can draw upon letters of credit from these off-shore banks to momentarily finance their shipments to Europe;

(vii) Formal finance from domestic banks in terms of direct loans is negligible at all levels. The majority of banks are located in urban areas and have few bank branches in rural areas. The share of agricultural loans in total loan portfolio of commercial banks across the countries has been insignificant. In addition, the cost of loans are very high compared to their inflation rates and that charged by off-shore banks (table 4). The large producer-exporters and pure exporters can draw on conventional overdraft facilities to service some part of their local short-term expenses, and marketing costs at post-shipment stage. Nonetheless, these overdraft facilities are available only for established exporters.

The limited amount of commercial bank lending to the horticultural sector can be understood given the expected risks and returns involved. Formal financial institutions incur heavy costs in collecting and analyzing the information needed to screen loan applicants and to sort good from bad borrowers. Furthermore, it is difficult and costly to recover bad loans. The obvious consequences are a reluctance to lend, a demand for secure collateral, and a preference for traditional, well-established customers. Therefore, a variety of informal credit and savings arrangements have emerged to service household and business needs of non-traditional agricultural exporters. Some of these informal arrangements are a response to financial repression and the underdeveloped formal financial services and institutions found in these countries. Others, however, are based on traditional values of reciprocity, and because of their low transaction costs will continue to prosper even when financial markets become more developed.

Like formal finance, informal lending requires loan screening and contract enforcement, but it can often be done far more cheaply.

It is unrealistic to expect commercial banks to assume the risks of financing the investment costs of horticultural export activity given the current uncertainty of returns, especially for all but the largest producers. Even for the largest producers it is unlikely that banks could move beyond their conventional overdraft facilities into project oriented term loans in which repayment would be subject to enterprise default risks. This is legitimately the area for venture capital from the owner-entrepreneurs themselves or joint ventures with foreign partners (as in franchising). It is logical, therefore, to expect that informal arrangements will provide many of the financial services used by the horticultural exporters in the near future while the formal financial system is slowly improving in a more liberalized environment. Formal financial institutions are, however, essential because of their ability to provide large amounts of resources and their specialization in lending. While they should not be expected to provide direct loans to horticultural exporters, they should be able to provide support services such as advance against collection, refinancing letters of credit, inland letters of credit, the leasing of equipment etc. The inability to refinance post shipment obligations was observed in Asia restricting exporters to sell only on importer's letters of credit terms (Rana and Nichols, 1990). There are examples of innovative arrangements to augment commercial bank landing to the horticultural sector. For example ECO bank in Ghana provides post-shipment loans to pineapple exporters to meet transportation costs. At the same time, Bank of Baroda in Uganda effectively uses large producers-exporters as conduits and guarantees for loans extended to their outgrowers. These strategies should be carefully studied for possible replication. Major improvements in financial services for horticultural exporters, however, requires efficient mechanisms that reduce overall

risks for horticultural exports. The next section, therefore, examines sources of pre- and post-shipment insurance for horticultural exports as one way to reduce risks.

IV. Pre- and Post-Shipment Insurance for Horticultural Exports

Ideally, as export credit programs provide loans for pre- and post-shipment needs, export insurance programs would insure the export credit extended by commercial banks against commercial and political risks, and producer-exporters of the production, marketing and defaults due to deferred payments. Banks are reluctant to lend to horticultural exporters out of their concern for repayment of principal and, therefore, insist on full collateral. The availability of insurance could reduce the high collateral requirements of banks.

The principal bearers of pre- and post-shipment risks for horticultural exports are summarized in table 5. While a limited amount of airline insurance is available to cover losses during transit, the majority of the risks are usually borne by the producers, exporters and importers through self-insurance. In general, government guarantee schemes such as in Uganda have not been effective in reducing the risks perceived by commercial banks in lending to horticultural exporters due to institutional weaknesses and political intrusions that delay claim settlements. However, private markets provide alternative instruments such as prepayment, private insurance through mutual trust, and self-insurance to redistribute risks. Long term relations established between buyers and sellers through repeated transactions and third party guarantees also reduce informational problems. This reduces the need for insurance to cover default losses due to deferred payments and the sale of poor quality produce.

Export insurance from external agencies reduces risk costs only if premiums are less than the exporters' perceived losses from self-insurance or if insurers have better perceptions of risks

than the exporters or if insurance is subsidized. The export guarantee is primarily based on the availability of information on exporters, foreign buyers and markets. The presence of moral hazard, adverse selection and the opportunistic behavior of exporters lead insurers to overload premium rates so that they exceed expected losses (Fitzgerald and Monson, 1989).[3] For example, our interviews in Ghana revealed that a full insurance coverage for the export of fresh horticultural produce by air requires a premium of at least ten percent of the value of the exported produce. On the other hand, the importers interviewed in the UK reported that the rejects due to poor quality usually do not exceed more than five percent of the value of total exported produce. There is a clear case of overpricing the insurance coverage for horticultural exports. Furthermore, experiences of industrial and developing countries do not provide support for government subsidies for export insurance since export credit insurance has not been observed to stimulate exports (Fitzgerald and Monson, 1989). Indeed, insured exports accounted for less than ten percent of total exports in Asia (Rana and Nichols, 1990). Conclusion of this analysis is that the provision of insurance through external insurers is difficult and costly for horticultural exports. Private insurance seems to be the only logical option under the current situation. The subsidization of insurance does not appear to be justified because of limited impact.

V. Financing Horticultural Exports: What Role for Government, Donors and Formal Banks?

The methods that entrepreneurs currently use to finance their operations reveal the segmented nature of financial markets in the case study countries. There are three types of

---

[3] With moral hazard exporters sell to customers who are induced to riskier behavior; with adverse selection, exporters sell to less reliable customers as the more reliable drop out of the market with increases in premiums.

distinct segments among the horticultural exporters: large farms, medium-sized farms and small producers. The role of governments, donors and formal banks varies with the type of exporter.

A. Large Farms

These are highly specialized and profitable firms. The rose producing farms in Uganda are probably the best examples (Meyer et al., 1994). These firms started with considerable equity capital, obtained information about and access to the foreign markets, and are able to generate good profits. These types of firms can access venture capital for investment purposes, have the political clout to access special lines of credit and guarantees, and are creditworthy enough to access domestic working capital loans and overdrafts. There will always be a few of these firms that are successful in penetrating foreign markets. Their financial constraints will be addressed by the financial institutions and instruments already in place. Frequently, these types of entrepreneurs are already engaged in other businesses so that the new business can be cross-subsidized by other profitable businesses. The entrepreneurs may have already established creditworthiness with an offshore financial institution so they can choose among alternate sources of finance to get the best terms and conditions.

B. Medium Sized Farms

These are farms that have accumulated some assets from other businesses and decide to try their hand at horticultural exports. They may or may not already have access to domestic or offshore sources of finance. These firms represent the type for which a government or donor may be able to make an effective contribution. The immediate problem for these firms is not finance; rather it is access to markets and production technology. Before these firms can expect to obtain bank credit, they must establish themselves in the market place. This implies that they must use equity or informal credit to get started in the business. No bank will lend until the

entrepreneurs proves that they can successfully manage the firm and penetrate the high risk market. The firms may be able to enter a joint venture with private foreign companies that wants to invest in the country, but the size of operation may be too small for a venture capital investment. Production may come from either own and/or outgrower sources. After demonstrating their capacity for several years, these firms may eventually obtain domestic finance, first for working capital, then for investment capital to expand the business. Eventually these firms may reach a financial constraint which will limit their growth or expansion. They will need a domestic financial system that is able to evaluate their performance and decide whether or not to grant a loan based only upon balance sheet or income information, not upon politics.

C. Small Farms

The last group in the segmented market consists of small producers. They lack access to markets, information and finance and cannot hope to penetrate the market individually. Their best alternative in the short-term is to link up with an already established domestic exporter in an outgrower scheme, or find a direct link with an importer who is likely to extend some private loans to facilitate the transaction. In the short-term, these individuals need savings services to help manage their cash flows, but they will not get access to domestic finance. Furthermore, they probably would not be able to wisely use a large amount of money if it suddenly became available.

D. Role for Governments, Donors and Formal Banks

Given the nature of the external market and the lack of experience of most producers in penetrating it, the government and donors need to recognize the limitations of any finance-led strategy to accelerate exports. Most producers report several constraints and the most important ones frequently are not financial (see annex 1 for evidence from Uganda). Entrepreneurs must

go through a long learning process probably with many successes and failures before either they or a lender can have much confidence in their future success.

This analysis does not suggest that a sound financial system is not necessary for agricultural and rural development. In the long-run, producers of both traditional and nontraditional crops need reliable places to save and to borrow. The financial systems in most SSA do not provide these services very efficiently today. The current problems of incomplete information, monitoring and contract enforcement in many countries suggest that an innovative legal and financial system is needed that will reward businesses and households with good performance, and exclude or punish those who misbehave. A savings-led financial strategy, perhaps linking formal with informal finance, may be worth considering. Large amounts of government or donor funds targeted for on-lending are definitely not appropriate. They will only serve to strengthen those with enough political clout to access the funds and to avoid repayment. The challenge for any export financing scheme is to carefully introduce a new financial product that does not compromise the functions of current loan and guarantee portfolios.

Four specific suggestions are made for monitoring financial developments and the performance of the horticultural sector. First, the impact of investment incentives needs to be monitored and possibly altered after the system has become fully developed. If investment incentives are going to be granted to new farms, their employment and equity impacts should be evaluated along with the value of total investments. By fine-tuning the incentives, it may be possible to tilt the production system chosen by some entrepreneurs for some products in the direction of relatively more labor and less capital, and relatively more production being done through outgrower systems rather than through plantations.

Second, outgrower financing schemes, such as the one initiated by the Bank of Baroda in Uganda, should be monitored to determine if loan guarantees provided by processor/exporter can be employed so that banks will begin to develop direct relations with outgrowers rather than lending indirectly through processors/exporters. Eventually, outgrowers will benefit from an ability to borrow directly from banks for uses not related to outgrowing, and to have greater flexibility in choosing where to market their products.

Third, programs such as those implemented by the Economic Policy and Development Unit (EPADU) in Uganda, the Ghana Export Promotion Council (GEPC) and, the Kenya Export Development Service (KEDS) are useful in providing information to potential investors and in the matchmaking of domestic with foreign investors. This latter function is particularly important in countries which impose constraints on foreign access to land. The sustainability of these efforts is crucial because in this dynamic field a failure to keep up-to-date about developments elsewhere may lead to a loss in markets.

Fourth, there is an important role for government in providing the traditional public goods. Investments to improve cold storage facilities, reduce transportation costs and delays, and improve communication services help all exporters, but may fall outside the scope of what any single business can provide. SSA countries must be competitive in both on-farm production and off-farm processing, handling and transportation if they expect to survive in the increasingly competitive markets for NTAEs. Careful attention must be given to determining which support services can only be provided by the public sector, and which are best left to the private sector to finance and manage.

VI. Conclusions and Policy Implications

A conclusion that emerges from the country studies is that export financing is not the most important factor limiting export growth compared to removing policy distortions, poor infrastructure and weak support systems for entrepreneurs, and the demanding requirements for production and post-harvest technology including packaging, handling, and marketing. Put differently, no amount of external finance could overcome these other constraints whereas one could imagine that an appropriate amount of non-institutional finance (self and informal finance) would be readily forthcoming if these other major constraints are substantially realized and removed. Local commercial banks are usually conservative in lending to agribusinesses and charge high interest rates. Large established producers/exporters, therefore, access offshore banks. Given the production and marketing risks due to questionable penetration in foreign markets, new producer/exporters are perceived as being too risky to be financed by formal banks. Start up capital should come from savings and informal sources. Joint ventures are frequently used in which the overseas importer provides some capital and information about what and how to produce for foreign markets. Once the firm has clearly established that it can successfully penetrate these markets, it may become a candidate for a working capital loan from commercial banks. It is also frequently the case that new producers have other businesses that can cross subsidize farming operations. Venture capital also has been a source of start up capital for big exporters.

Once producers get established and have an opportunity to expand or need to improve their harvesting/post-harvesting technologies, they may experience investment capital constraints because of imperfections in local financial markets. It is unrealistic to expect commercial banks to assume the risks of financing the investment costs of horticultural export activity given the

current uncertainty of returns, especially for all but largest producers. Even for the largest producers it is unlikely that banks could move beyond their current conventional overdraft facilities into project oriented term loans in which repayment would be subject to enterprise default risks. This is legitimately the area for venture capital from the owner-entrepreneurs themselves or for joint ventures with foreign partners and franchising. It is logical, therefore, to expect that informal arrangements will provide many of the financial services used by the non-traditional exporters in the near future while the formal financial system matures through market liberalization.

Most SSA countries are undertaking financial reforms that can be expected to improve the long-term prospects for credit worthy agribusinesses to obtain reasonably priced loans for good projects. In the mean time, however, some firms will be denied credit by local banks. It is possible that well functioning credit guarantee schemes or export credit schemes may reduce these risks enough for the local banking system to make a few loans that otherwise would not be made. This is a country specific question. The experience of Asian countries, however, suggests that the impact of special export promotion programs has been limited (Rana and Nichols, 1990). Rather than trying to resolve difficult lending problems for a risky sector such as horticulture, a more productive course of action for many governments and donors appears to be the creation of support programs that improve access to information, market match making, venture capital funds, and an environment for joint ventures.

Table 1. Comparison of Selected Macroeconomic Policy Indicators from Selected African Countries.

Policy Indicators	Ghana	Madagascar	Rwanda	Swaziland	The Gambia	Uganda
A. Fiscal Policy stance (1990-91)[1]	Good	Poor	Poor	Good	Good	Poor
B. Monetary Policy stance (1990-91)[2]	Fair	Fair	Fair	Fair	Fair	Fair
C. Exchange Rate Policy stance (1990-91)[3]	Good	Good	Poor	Fair	Fair	Fair
D. Index scores of changes in macroeconomic policies (1990-91)[4]	2.0 (Large improvement)	1.0 (Small improvement)	-0.3 (Deterioration)	na	1.7 (Large improvement)	0.3 (Small improvement)
E. Financial Policy Stance (1990-91)[5]	Good	Good	Fair	Good	Good	Good
F. Average annual growth rate (1987-91)						
a. GDP per capita	1.3	-2.1	-5.0	4.7	0.3	2.8
b. Agricultural growth	2.0	2.5	0.2	1.3	-2.6	4.7
c. Manufacturing	4.5	-	-0.2	-0.8	-	13.7
d. Industry	6.4	1.1	-1.5	na	2.8	23.6
e. Overall exports	8.1	6.1	2.1	7.6	11.3	-
G. Gross domestic saving as a % of GDP (1988-92)	6.3	5.3	2.5	21.5	6.4	0.2
H. Inflation (%) (1993)	5.2	6.5	11.9	8.8	9.9	9.0

Source: World Bank Policy Research Report, "Adjustment in Africa: Reforms, Results, and the Road Ahead," 1994.

1. Ranking based on 1991 budget deficit as percentage of GDP. Good: less than 1.5% of GDP; Fair: 1.5 to 3.5 %; Poor: 3.6 to 7.0%; Very poor: More than 7.1%.
2. Ranking based on 1991 seigniorage, inflation rates and real interest rates.
   Good: Low seigniorage of less than 0.5% of GDP, inflation less than 10% and 0 to 3% of real interest rates.
   Poor: High seigniorage, inflation over 100%, and very high negative real interest rates.
3. Ranking based on the premium in the parallel market for foreign exchange, in 1991.
   Good: premium of 0-10%; Fair: 11-30%; Poor: 31-50%; Very poor: more than 50%.
4. Scores based on 1991 fiscal, monetary and exchange rate policy stances.
5. Ranking based on 1992 annual real interest rates.
   Good: More than 5%; Fair: 1-5%; Poor: 0 to -10%; Very poor: less than -10% (constructed by OSU).

Table 2. Current Export Promotion Policies for Horticultural Exports in Selected African Countries, 1993/94.

Particulars	Ghana	Madagascar	Rwanda	Swaziland	The Gambia	Uganda
A. Environment for investors						
a. Exchange rate policy stance[1]	Good	Good	Poor	Fair	Fair	Fair
b. Restrictions on export licenses	None	None	None	None	None	None
c. Restrictions for foreign investors	None	None	na	None	None	Should have 50% Ugandan involvement
d. Restrictions on land used by foreign investors	Lease only	na	na	No restrictions	Lease only	No ownership rights
e. Repatriation of foreign exchange	Liberal	Liberal	Liberal	Liberal within monetary union	Liberal	Liberal
f. Export taxes	Exempted	Exempted	na	Exempted	Exempted	Exempted
g. Price controls and subsidies for fertilizer from the government	No controls	No controls	No controls	No controls	No controls	No controls
h. Imports of inputs	No controls	No controls	No controls	Limited controls	No controls	No controls
B. Infrastructure facilities[2]						
a. Hard infrastructure (cold storage, roads, transport)	Fair	Poor	Poor	Fair	Poor	Poor
b. Soft infrastructure						
(i) Technical assistance, ext.	Poor	Poor	Poor	Poor	Poor	Fair
(ii) Market information	Fair	Poor	Poor	Poor	Poor	Fair
(iii) Match making of exporters and importers	Fair	Poor	Poor	Fair	Poor	Fair
(iv) Government lobbying in overseas markets	None	None	None	None	None	None
c. Public investment on infrastructure building as a % of GDP, 1987-91	3.2	7.5	8.1	7.0	10.3	5.0

Table 2, cont.

Particulars	Ghana	Madagascar	Rwanda	Swaziland	The Gambia	Uganda
C. <u>Financial sector reform</u>						
a. Government intervention in						
(i) interest rates for deposits	None	None	Minimum deposit rate	None	None	Minimum deposit rate
(ii) interest rates for loans	None	None	Maximum lending rate	None	None	Maximum lending rate
b. Bank restructuring	Yes	Yes	Yes	Yes	Yes	Yes
D. <u>Export financing</u>						
a. Central Bank refinancing facilities to commercial banks lending to NTE exporters	Absent	Absent	Absent	Exist but not used	Exist but not used	Exist but not used
b. Government guarantee for export credit by commercial banks	Absent	Absent	Absent	Exist but not used	Absent	Exist but not used
c. Commercial Bank financing (Public Banks)[3]						
(i) Production	Negligible	Negligible	Negligible	Modest	Negligible	Modest
(ii) Post-shipment	Negligible	Negligible	Negligible	Negligible	Negligible	Negligible
d. Special government institutions for export financing	Exist but poor performance	Absent	Absent	Absent	Absent	Exist but fair performance

Source: Individual Country Study Papers, OSU; World Bank Policy Research Report, 1994.

1. Ranking based on 1991 premium in the parallel market for foreign exchange.
   Good: 0-10 % premium; Fair: 11-30 %; Poor: 31-50%; Very poor: $\geq$51%
2. Ranking based on the presence, condition and adequacy of facilities in 1993.
   Good: Operates in good condition and satisfies demand;
   Fair: Operates in good condition but not sufficient;
   Poor: Present but is not in good condition and is not adequate
   Very poor: Absent
3. Ranking is none, negligible, modest and ample.

Table 3. Relative Importance of Diverse Sources of Pre- and Post-shipment Finance of Horticultural Exports: Summary of Results from Selected African Countries.[a]

Type of finance	Sources ranked by order of importance
I. Pre-shipment finance	
A. Pure Producers selling to Exporters	
a. Investment	• Self finance • NGO grants
b. Working capital	• Self finance • Informal finance • Outgrower credit from exporters • NGO grants/loans
B. Large Producer-Exporter	
a. Investment	• Self finance (retained earnings from other businesses) • Informal finance • Joint ventures/partnerships • Venture capital • Domestic commercial bank loans • Government facilities
b. Working capital	• Self finance • Informal finance • Overdrafts from domestic commercial banks • Joint ventures/partnerships • Supplier's credit if buying from outgrowers
C. Pure Exporters buying from outgrowers/independent growers	
a. Investment	• Self finance • Informal finance
b. Working capital	• Self finance • Informal finance • Overdrafts from domestic commercial banks • Supplier's credit from outgrowers and independent growers
II. Post-shipment Finance	
A. First or near first-time exporter	
a. Transportation costs	• Self-finance/informal finance • Deferred payments to airlines
b. Marketing costs	• Self-finance • Informal finance
B. Established exporter	
a. Transportation costs	• Self-finance • Imports • Deferred payments to airlines • Domestic commercial banks
b. Marketing costs (packaging to final sales to the importer	• Self-finance • Informal loans • Joint ventures/partnerships • Off-shore banks through 4c's • Overdraft facilities with domestic commercial banks

[a] Countries include Ghana, Madagascar, Rwanda, Swaziland, The Gambia and Uganda.

Table 4. Formal Financial Institutions: Number, Loans and Advances to Selected Sector, and Lending Rates in Selected African Countries.

	Countries					
	Ghana[1]	Madagascar	Rwanda[3]	Swaziland[4]	The Gambia[5]	Uganda[6]
I. Total number of public and private commercial banks, Development banks, and cooperative banks	15	6	7	5	4	18
II. Total number of formal bank branches	144	35	165	-	13	226
III. Loans and advances from formal banks (% shares)						
a. Agriculture	10.6	16.9	8.7	8.4	16.7	26.5
b. Manufacturing	27.4	54.8	22.1	37.9	5.1	16.5
c. Trade and commerce	15.5	5.5	35.6	na	32.5	44.8
d. Mining, querying, transport, construction, utilities, services, etc.	46.5	22.8	33.6	53.4	45.7	12.2
IV. Nominal annual savings rate (%)						
a. Demand deposits	3-6.8	-	-	-	11.0	-
b. Savings deposits	11-16.0	6-8.5	7.7	6.75-9.50	12.5	11.0 (min)
c. Time deposits (1-36 months)	14.5-22.5	13.0	-	6.50-7.25	14.5	-
V. Nominal T-bill rates (90 days)	25.4	-	-	8.25	19.0	20.0
VI. Nominal annual lending rate (%)						
a. Agriculture loans	19.7-26.5	13.5-14.5	16.67	14.25-20.50	25.0	23.0 (max)
b. Manufacturing and export loans	19.7-26.5	-	16.67	-	25.0	Negot.
c. Commerce	29.0	-	16.67	-	29.0	Negot.
d. Short-term loans	-	20-24	-	-	-	-
e. Term loans	-	16-18.5	-	-	-	-
VII. Real interest rates for agricultural loans (%/annum)	17.9	7.5	4.8	5.20	15.1	14.0

1. Source: Bank of Ghana, Annual Report, 1992. Data related to Dec. 1992.
2. Source: Camacho, 1994; Data related to 1992.
3. Source: Baydas et. al. 1994; Data related to 1992.
4. Source: Central Bank of Swaziland, Annual Report 1992/93; Data related to 1993.
5. Source: Graham et. al. 1993.; Data related to 1991.
6. Source: Bank of Uganda; Data related to 1993.

Table 5. Principal Bearers of Pre- and Post-shipment Risks for Horticultural Exports: Summary of Results from Selected African Countries.

Risks	Principal bearers of risks (by order of importance)
I. Pre-shipment stage	
a. Production risks due to weather, inputs, availability, etc.	• Producers
b. Political turmoil	• Producers and Exporters
c. Production/investment loans (delinquency/default losses)	• Producers and exporters • Bank Creditor (Export Guarantee Scheme in Uganda)
II. Post-shipment stage	
a. Transport delays	• Shippers • Exporters • Private insurance companies
b. Marketing risks in overseas markets	• Exporters in case of consignments • Importers in case of fixed prices
c. Quality deterioration risks	• Exporters (until consignment accepted by importers) • Importers (until consignment accepted by wholesalers or supermarkets) • Supermarkets (once accepted from a distributing agent)
d. Risks due to late payments from importers	• Exporters
e. Default risks from importers	• Exporters

Annex Table 1. Number of Ugandan Exporters Procuring and Marketing Non-traditional Agricultural Exports, by Type of Constraint.

Particulars			Fruits and vegetables	Spices
I.	Sample size		24	8
II.	Constraints			
	a.	Financial	14	6
	b.	Transport (international)	14	5
	c.	Poor quality produce	13	4
	d.	High prices for inputs	10	5
	e.	Storage facilities	13	2
	f.	Cold storage at the airport	12	1

Source: EPADU/OSU, 1994.

Total may not add up due to multiple responses; the constraints are not arranged by ranking.

REFERENCES

Bank of Uganda, Quarterly Economic Report, April-June, 1993

Baydas, Mayada et al., "Output Distribution Networks in The Agricultural Sector in Rwanda," The Ohio State University, June, 1994.

Camacho, Arnoldo, "Commercialization and the Finance of Agriculture and Agribusinesses in Madagascar," The Ohio State University, March, 1994.

Fitzgerald, Bruce and Terry Monson, "Preferential Credit and Insurance as Means to Promote Exports," Research Observer, Vol. 4, No. 3, Jan. 1989, pp. 89-114

Harris, S., "Identification of an Export Diversification Strategy for Non-Traditional Export Crops in Uganda," Uxbridge: High Value Horticulture Plc., 1991.

Meyer, Richard L., "The Horticultural Sub-Sector in Uganda: Marketing and Financial Strategies to Service Alternate Markets," The Ohio State University, June, 1994.

Nagarajan, Geetha et al., "Prospects for Horticultural Exports to European Markets from The Gambia," The Ohio State University, June, 1994.

Rana, Pradumna R. and Bruce Nichols, "Overview," in Export Finance: Some Asian Examples, Manila: Asian Development Bank, 1990.

Ouattara, Korotoumou et al., "Growth Prospects for Ghana Horticultural Exports," The Ohio State University, June, 1994.

World Bank, Adjustments in Africa: Results, and the Road Ahead, Washington, D.C.,: World Bank Policy Research Report, 1994.