AAAE Conference proceedings (2007) 265-270

Agriculture and The Challenge to Reduce Poverty in East Africa

Evelyne A. Lazaro & Jeremia R. Makindara

Sokoine University of Agriculture,Department of Agricultural Economics and Agribusiness,

P.O. Box 3007, Morogoro, Tanzania.

Abstract

The three East African (EA) countries Tanzania, Kenya and Uganda have a population of about 95 million people and Gross Domestic Product (GDP) of USD 34.2 billion. In recent years efforts has been made among the three East African countries, towards forging economic and regional co-operation by establishing the East African Community (EAC). The premise for economic and regional co-operation has been underpinned for the need for a common market and boost regional trade. The ultimate goal of these efforts is to achieve one of the international development objectives of increasing growth to 7% a year that is required to reduce income poverty. One of the challenges that East African countries need to tackle in the face of globalisation is the ability to participate in international markets. East African countries have to make serious consideration with regards to changing the composition of their exports away from primary products to manufactured exports. Value addition to both agricultural and industrial products is vital to improving the EA economies. This paper examines the composition of East Africa's economic structure. The aim is to analyse how the economic structure has changed over time, and to assess whether or not East African countries have transformed their agricultural sectors, and what the impact has been on poverty reduction in these economies.

Introduction

In recent years efforts has been made among the three East African countries, Tanzania, Kenya and Uganda towards forging economic and regional co-operation by establishing the East African Community (EAC). The premise for economic and regional co-operation has been underpinned for the need for a common market and boost regional trade. In future it is hoped that the region will develop into a political federation. The East African Community was re-launched in 1999 after the first attempt of the EAC ended in 1977.

The three East African countries have a population of about 95 million people and Gross Domestic Product (GDP) of USD 34.2 billion (East African Business council (EABC)).

One of the challenges that East African countries need to tackle in the face of globalisation is the ability to participate in international markets. East African countries have to make serious consideration with regards to changing the composition of their exports away from primary products to manufactured exports. Value addition to both agricultural and industrial products is vital to improving the EA economies. This paper examines the composition of East Africa's economic structure and policies. The aim is to analyse how the economic structure has changed over time, and to see whether or not East African countries have transformed their agricultural sectors, and what the impact has been of trade liberalisation measures on the economies. On November 30th 2006 Rwanda and Burundi were granted membership to the East African bloc (at the 8th EAC summit held in Arusha Tanzania) to make a membership of five countries. However, this paper will focus on the three countries. The specific questions that this paper addresses are the following;

- What are the main differences and similarities in the economic structure in the three East African countries?
- To what extent is East Africa's agriculture contributes to poverty reduction, and how has this changed over time?
- What is the export structure of East African countries?
- What are the challenges for the East Africa's exports to reaching new markets?
- What are the implications for poverty reduction?

Methodology

This paper is based on data compiled by the World Bank on poverty measures and FAO on status of agriculture. The authors make some aggregation for East African countries where necessary. The data is tabulated and plotted into graphs and complimented by existing literature specifically for East African countries.

Findings

Economic structure

There exist differences and similarities in terms of the economic structure in the three East African countries. The countries are characterized by low level of economic growth rates (Table 1). The East African economies depend largely on agriculture for growth of the economy as well as the livelihoods of the majority of population.

The main agricultural export crop for Kenya is tea taking up from coffee whose contribution to exports decline in the 1990s.

Tea contributes to about 19% of the total agricultural export (FES, 2003). Kenya's leading foreign exchange earners in 2000 were: tea (18.7%), transportation services (16.7%), and horticulture (11.3%), and petroleum products (5%- mainly re-exports) (FES, 2003). The EU remains the largest market for Kenyan Agricultural products which make up approximately 90% of all exports to the EU (FES, 2003). The contribution of the export of non-traditional crops like cut flowers and vegetables has been increasing over time. The main agricultural export from Tanzania is Coffee. Other main Tanzania's exports include cashew nuts, cotton, tobacco and tea which together contributed 44% of total exports in 2000 (FES, 2003). The agricultural export destinations are Western European markets, Asia and Middle East.

The contribution of non-traditional export is also increasing in Tanzania in this case minerals. Minerals mainly gold and diamonds have lately become an important component of Tanzania's export sector, expanding from 2% of total exports in 1995 to 27% in 2000 (FES, 2003).

Economic and regional cooperation

The customs union protocol was signed in 2004 as an effort to establish a regional cooperation. The Customs Union began to set common external tariff for goods imported within the East African region in January 2005 which is a step towards a common market.

A key objective of the East Africa Community (EAC), formed on 30th November 1999, is to promote improved regional economic performance. The EAC mission is 'to widen and deepen economic, political, social and cultural integration in order to improve the quality of life of the people of East Africa through increased competitiveness, value added production, trade and investment'. Economic development is thus at the core of the EAC. As a first step towards regional economic integration, the East Africa Customs Union was created on 1st January 2005 (East African Business Council, 2006)

Table 1: Gross Domestic product-real constant price

country	Gross Domestic Product Average annual growth rate %			Per capita Gross domestic product Average annual growth rate %		
	1980-89	1990-99	2000-04	1980-89	1990-99	2000-04
Kenya	4.1	2.2	2.7	0.5	-0.6	0.3
Tanzania		2.7	6.9	0.4	0.2	4.4
Uganda	2.3	7.2	5.4	-0.6	3.5	2.0

Table 2:Structure of East African Countries (2004)

Country	Land Area (Thousand sq.Km)	Total population (Millions)	Population density (People/sq.Km)	Average Annual Population Growth Rate 1990-2004 (%)
Kenya	569	33.5	59	2.5
Tanzania	884	37.6	43	2.6
Uganda	197	27.7	141	3.2

Population Distribution

Of the three East African countries, Tanzania is the largest with a population of 37.6 million in 2004 the highest of the three countries (Table 2). Though Uganda is the smallest in size it is the most densely populated and highest average annual population growth rate. Uganda's population density in 2004 was 141 people per square Kilometer and average annual population growth rate between 1990 and 2004 of 3.2%. An analysis of the distribution of the population between urban and rural areas is useful because evidence has shown that poverty is largely a rural phenomenon in most developing countries. Generally it can be observed that the proportion of the rural population was lower in 2004 compared to 1990 in all the three countries (Table 3).

Role of agriculture in poverty reduction

Earlier theories of development identified agriculture as an inferior sector (Lewis1954). With this view development was associated with support for rapid industrialization (Lipton, 1977). The contribution of Mellor (1961) and Schultz (1964) established a positive view on the contribution of agriculture to development. Agriculture contributes a large proportion of the East African economies (Table 7). Table 7 shows the contribution of agriculture, industry and service sectors to the total output (GDP) of the three East African countries for 1990 and 2004. The table shows that agriculture contributed for example in Uganda 57% of the output compared to only 11% contribution by industry in 1990. However, comparing the data on the contribution of agriculture in 1990 and 2004 there is an indication that the contribution of agriculture is declining all the three countries. For Uganda for example declined from 57% in 1990 to 32% in 2004. The theories of development indicate that the role of agriculture diminishes with development. If development means improvements in people's standards of living the diminishing in agricultures role should correspond with improvements of people's standard of living in East Africa. We look at extent of poverty reduction in the three countries as an indicator for development.

Structure of Agriculture Sector

The relative contribution of a sector to poverty reduction depends on its effect on the growth of the economy. This effect depends largely on the structure of the agriculture sector itself.

The growth of the agricultural sector over time provides a reflection of the structure of the agriculture sector. Data presented in Table 9 shows the growth rate of agriculture compared to the industry; manufacturing and service sector is varied between the three countries. In Kenya agricultures growth rate remained the same between 1990-2000 and 2000-2004 at a low rate of 1.9%. For Tanzania for the same period increased from 3.2% to 4.9% (Table 9).

Table 3: Population Distribution

Country	Population			
	Rural as % of total population		Urban as % of total population	
	1990	2004	1990	2004
Kenya	75	59.5	25	40.5
Tanzania	78	63.5	22	36.5
Uganda	89	87.7	11	12.4

Source: world Bank 2006

Table 7: Structure of output

Country	% of GDP							
	Agriculture		Industry		Manufacturing		Services	
	1990	2004	1990	2004	1990	2004	1990	2004
Kenya	30	27	19	17	12	11	51	56
Tanzania	46	45	18	17	9	7	36	39
Uganda	57	32	11	21	6	9	32	47

The growth rate for industry increased for Kenya and Tanzania but for Uganda declined from 12.2% to 7%.The key question here is how the performance of these sectors translates into poverty reduction.

Poverty and poverty reduction strategies

A fundamental prerequisite for poverty reduction is economic growth that considerably outpaces population growth. The Development challenge in the three East African countries like many developing countries is how to increase growth and eliminate poverty. Poverty is more pronounced in rural areas although urban poverty is also a problem in East African countries (Table 10). Data presented in Figure 1 show that there is a general reduction in poverty between the 1990s and 2000s. This is likely the outcome of the poverty reduction strategies that each of the countries had undertaken. The extent to which agriculture contributed to reduction in poverty is indicated by number of people employed in agriculture and dependency on agriculture by the countries. The rural population that make the majority of the poor depend directly on agriculture for their livelihood as such as it is often argued that agricultural growth has a higher return in terms of poverty reduction than an equal amount of growth in non-agriculture (Christiansen, Demery and Kühl 2006). Each of the East African countries has developed strategies for poverty reduction and prepared Poverty Reduction Strategy Papers (PRSPs). The papers describe the countries macroeconomic, structural, and social policies in support of growth and poverty reduction, as well as associated external financing needs and major sources of financing. In this line Uganda developed a Poverty Eradication Action Plan (PEAP) and the Plan for Modernization of Agriculture (PMA). PAM is part of PEAP and aims at improving incomes, reducing food insecurity, creating gainful employment and a good environment for sustainable natural resource management. Kenya developed a National Poverty Eradication Plan (NPEP) and an Interim Poverty Reduction Strategy (IPRSP) to address poverty. Tanzania prepared a first Poverty Reduction Strategy Paper (PRSP) covering a period 2000/01–02/03 and a second PRSP commonly known as Strategy for Growth and Reduction of Poverty (NSGRP) in June 2005.

Export structure of East African countries

Industrial export processing has been an important component of most of the successes of export- led growth of developing economies. To date, this has not developed to any significant extent in East Africa (Brian Van Arkadie). The export sector of the East African countries is dominated by unprocessed agricultural products. The traditional export crops include coffee, tea, cotton, sisal and tobacco. The problem with such exports is price fluctuations in the international market as well as weather conditions. What is currently experienced in East African economies is a drop in the share of traditional exports to total exports. In Uganda for example the share of traditional exports to total exports fell drastically from 71.3% in 1999 to 39.1% in 2002 (Republic of Uganda). The drop in share of traditional exports has resulted in an increase of the share of non-traditional exports. The case is sighted for increase in the share of the export of cut flowers for Kenya, in Uganda the share of fish to total exports increased to 7.7%, 17.3% and 18.8% in 2000, 2001 and 2002 respectively (Republic ofUganda________). In Uganda the share of non traditional exports (NTEs) has been increasing with the highest share of 61.7% being recorded in 2001.

Conclusion

The overall GDP growth rate in East African countries has been driven by better performance of the agricultural sector. This paper emphasise the fact that enhancing agricultural productivity is the critical entry-point in designing effective poverty reduction strategies in East Africa. This is supported by the fact that the poor participate much more in growth in the agricultural sector. However, to maximize the poverty reducing effects among other things investments that support value addition in agriculture and market access are emphasized. The efforts through the East African Community aiming at regional integration are supportive to this view. Agriculture need to be transformed one strategy is diversification to high value non-traditional agricultural products need strong institutional and financial support. Investments directed at development of industries to support value addition in agriculture will ensure linkages with the agriculture sector. Such investments are likely to contribute to higher economic growth rates.

Acknowledgements

The authors acknowledge the organizing committee of the AAAE international conference for the opportunity to present this paper.

References

Christiaensen L, Demery L. and Kühl J 2006 The Role of Agriculture in Poverty Reduction: An Empirical Perspective World Bank Policy Research Working Paper 4013. http://econ.worldbank.org. Accessed on 16 June 2007.

East African Business Council (EABC) (2005) A Study on Non-Tariff Barriers (NTBs) & Development of a Business Climate Index in the East Africa Region. The GTZ Project of"Support of Regional Business SRBO Organisations in East Africa (SRBO-EA) EA)" *Final Report.* PP66

Friedrich Ebert Stiftung (FES) and Econews Africa (2003) Negotiating Economic Partnership Agreements: Challenges for East African Countries Nairobi Kenya pp52.

Kwaku K (2003) *Tanzania and the Challenges of Regional Trade Promotion* Paper presented at the Commonwealth-Tanzania Investment Conference Royal Palm Dar-es-salaam May 28th to 30th , 2003 pp11.

Lewis, William Arthur 1954 Economic Development with Unlimited Supply of Labor";Manchester School of Economic and Social Studies 22, May, 139-191.

Lipton, Michael 1977 Why Poor People Stay Poor: Urban Bias and World Development, Temple Smith, London, and Harvard University Press.

Mellor, John (1976): The New Economics of Growth: A Strategy for India and the Developing World; Ithaca, NY, USA; Cornell University Press.

Schultz, Theodore W. 1964 Transforming Traditional Agriculture, New Haven, Conn., Yale University Press.

Warren J. 2006 Competitiveness Alliances for East Africa: Final Report. East Africa Business Council (EABC), GTZ-Support of Regional Business pp61

Table 9: Growth of output

Country	Agriculture Average annual % growth		Industry Average annual % growth		Manufacturing Average annual % growth		Services Average annual % growth	
	1990-2000	2000-04	1990-2000	2000-04	1990-2000	2000-04	1990	2000-04
Kenya	1.9	1.9	1.2	3.5	1.3	2.5	3.2	3.1
Tanzania	3.2	4.9	3.1	8.9	2.7	7.6	2.7	5.9
Uganda	3.7	3.9	12.2	7.0	14.1	5.0	8.2	7.2

Table 10: Status of Poverty in East African Countries

Country	Survey year	Percent population below the national poverty line			International poverty line
		Rural	Urban	National	Population below 1$/day
Kenya	1994	47.0	29.0	40.0	
	1997	53.0	49.0	52.0	22.8
Tanzania	1991	40.8	31.2	38.6	
	2000/2001	38.7	29.5	35.5	57.8
Uganda	1999/2000	37.4	9.6	33.8	
	2002/2003	41.7	12.2	37.7	

Source World bank 2006

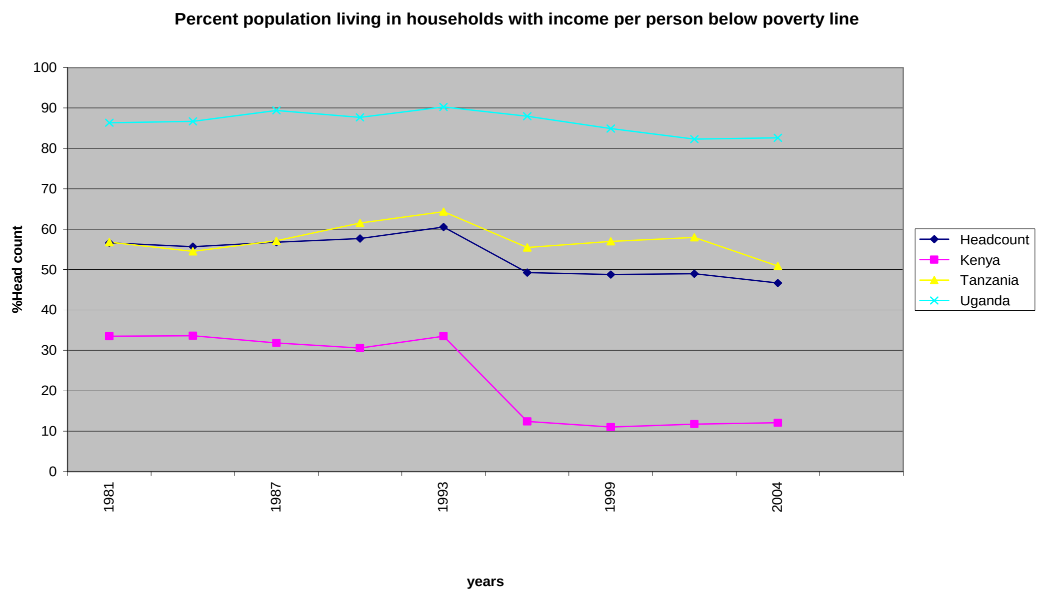

Figure 1: Population below Poverty Line