West Africa Livestock Marketing: Brief 4

Promoting livestock marketing and intra-regional trade in West Africa

I. Okike, T.O. Williams and I. Baltenweck

Key points

- Livestock trade is more competitive and functions better within countries (domestic segment) than between countries (cross-border segment). This is mainly due to high capital outlay, lack of credit and the increased risk of losing animals associated with cross-border trade.
- Transportation and handling costs are the single largest component of marketing costs. These can be reduced through reduction of tariffs on new trucks and spares and the reduction of official taxes, including fuel tax. Elimination of illegal taxation along the trade routes could also contribute to improved market performance.
- Value-added processing will eliminate the need for handling costs incurred during cross-border transportation.
- Beef production and value of livestock trade can be substantially increased through fattening schemes in response to the premium being paid by export traders for high quality beef. This should also pave the way for the region to achieve exportable surplus and earn foreign exchange.
- Market integration is low. Livestock market information systems have to be developed and effectively deployed at national and regional levels to overcome this problem.
- Market institutions such as livestock traders' associations and intermediaries, both at local and national levels (*sociétés de convoyage*), have emerged to play roles, which should ordinarily be undertaken by the public sector. These roles are aimed at lowering transactions costs and facilitating livestock trade and regional integration.
- Livestock traders' associations, especially the Cooperative des Marchands de Bétail de Sikasso (COBAS) of Mali and the Union Nationale des Associations de Commerçants et Exportateurs de Bétail du Burkina Faso (UNACEB), appear to have the required knowledge and managerial skills to successfully administer credit and supply transport facilities to needy members but lack the financial strength to fully achieve these objectives. Their methods of credit administration merit further study as these could provide lessons for overcoming the constraints posed by lack of credit to livestock traders.
- Some governments in the region are not fully committed to the implementation of agreed trade policy reforms concerning trade liberalisation and facilitation, exchange and payments systems and investment facilitation. This negatively affects costs of livestock trade and regional integration.

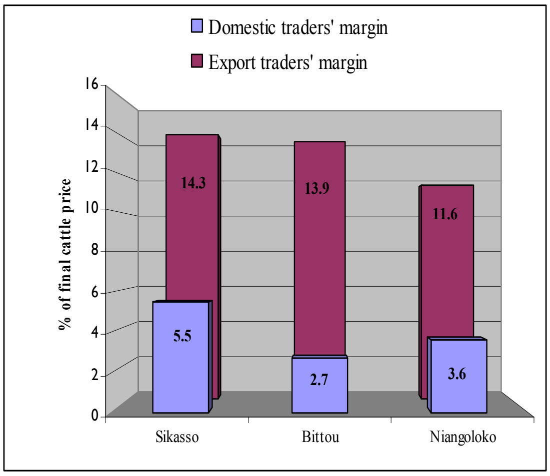
Livestock are the highest valued agricultural commodity in intra-regional trade in West Africa. Historically, they have linked the Sahelian countries (e.g. Burkina Faso, Mali and Niger), which are livestock exporters, to the humid coastal countries of Côte d'Ivoire, Ghana and Nigeria, which are net importers. Intra-regional trade in live animals, including cattle, sheep and goats, increased in real value terms from US$ 17 million in 1970 to US$ 211 million in 2000, with cattle accounting for roughly 70% of trade. Livestock provide livelihood opportunities for millions of resource poor smallholder producers and, if properly promoted, livestock trade has the potential to contribute significantly to foreign exchange earnings.

As part of the Common Fund for Commodities (CFC) funded project on "Improvement of Livestock Marketing and Regional Trade in West Africa", the International Livestock Research Institute (ILRI) conducted a study in 1999 to identify the major economic, institutional and policy barriers to achieving the full benefits and possibilities of livestock trade. Major findings of the study are presented in this brief.

Livestock marketing channels: Competition and market performance

Beef produced under the pastoral systems in the Sahel in 2001 at an average price of US$ 1500/t is competitive compared with the global price of US$ 1900 and US$ 2500 and US$ 3100/t in the United States and the European Union, respectively (Boutonnet et al. 2000; World Bank 2001). How-

Figure 1. *Marketing margins of domestic and cross-border traders in Sikasso (Mali), Bittou and Niangoloko (Burkina Faso).*



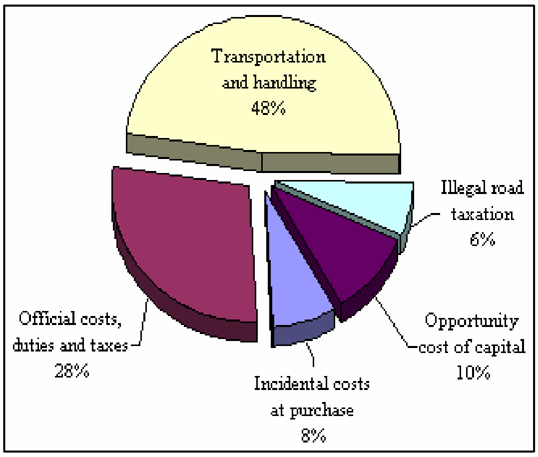
ever, marketing problems in the region lower this competitive advantage and partly prevent Sahelian livestock producing countries from participating in the lucrative global market for red meat. Competitiveness remains a matter of concern for various reasons presented in this brief.

The domestic segment of the livestock marketing channel starts at the farm gates and village collection markets and ends at frontier markets—markets which are located at the border of neighbouring countries with the aim of facilitating cross-border trade. This segment is operated by small to medium scale traders with a capital base ranging from 0.5 to 2.5 million FCFA[1] and was found to be very competitive with marketing margins ranging from 2.7 to 5.5% of final market prices for cattle. The main distinguishing factor between big livestock (export) traders and domestic traders was the capital outlay required to export a truckload of cattle—about 4.4 million FCFA.

The number of traders operating in the cross-border segment have remained limited due to the higher capital outlay required, lowering the necessity to adopt competitive behaviour. This is partly reflected in the size of the marketing margins of export traders which is two to five times higher than in the domestic segment (Figure 1). In total, this can represent as much as 6.52 billion FCFA per year for cattle exports from Burkina Faso and Mali alone. The higher margins partly compensate for the higher risks and transactions costs (including loss of animal and illicit taxation) involved in cross-border trade. Nevertheless, the results suggest that improved market performance in the entire livestock marketing chain can be achieved by making credit readily available to livestock traders to increase the number of participants and competition in the cross-border segment, and also by reducing the risks associated with cross-border livestock trade.

Transportation and handling (transfer) costs as a major constraint to marketing

Figure 2 Components of cross-border cattle marketing costs (%) (excluding purchase cost of cattle).



The purchase price of cattle at an average of 105,850 FCFA in the exporting countries represents 83% of all costs incurred in cross-border cattle marketing. Livestock trade in West Africa is based on live animals and, as such, transportation and handling go together in the process of transferring animals from one location/owner to another. Transportation and handling alone account for almost half of the other associated marketing costs (Figure 2).

Cross-border transportation and handling expenses remain high due to a shortage of trucks, high fuel taxes, activities of *sociétés de convoyage* (see livestock market institutions below), handling costs and inadequate or deteriorating transport infrastructure (see Brief 3).

Promoting effective livestock marketing and intra-regional trade will require the elimination of illegal road taxation at checkpoints, reforming conveyance companies, and lowering fuel taxes. These policy actions could potentially lower shipment costs by 37% or 5250 FCFA/head of cattle from the current 13,650 FCFA/head (see Brief 3). Value added processing, in the medium to long run, will further reduce costs in the cross-border segment by eliminating the need to pay fees to drovers who drive (conduct) herds of animals to market as trade becomes based mostly on meat rather than live animals.

Premium on high-grade cattle and advancing production towards exportable surplus

Analyses of factors that determine livestock prices showed that buyers paid a premium for large, castrated, zebu cattle in excellent body condition (see Brief 2). All traded cattle were graded by body condition, with only 14% of weighed cattle proving to be in excellent body condition (Table 1).

Table 1. *Average prices (FCFA/kg liveweight) paid by cattle traders for the five grades of cattle presented at the 3 frontier markets studied (sample size = 3811).*

	Body condition score					
	Very lean	Lean	Good	Very good	Excellent	All cattle
Proportion of weighed cattle (%)	1	11	47	26	14	100
Average weight (kg)	197	210	223	284	340	253
Price/kg liveweight (FCFA)	289	313	349	394	413	365

Tests for equality of means show that prices differed at 0.01 level of significance between grades

The price per kg liveweight of cattle varied from 289 FCFA for very lean cattle to 413 FCFA for cattle in excellent body condition. Improving the body condition of cattle presented for sale to an excellent rating would result in a 34% increase in beef production, or a 39% increase in value. In real terms, the value of intra-regional cattle trade in 2000 could have been worth US$ 208 million instead of the US$ 150 million it achieved if farmers had consistently produced zebu cattle in excellent body condition.

[1]*During the write up of this brief, US$ 1 = 550 FCFA.*

Weak price transmission between markets

Comparing cattle prices over time in Bittou and Niangoloko markets, and their respective supply markets, showed that livestock prices tend to move in the same direction in the short run for pairs of frontier and supply markets. However, prices in the frontier markets do not respond to changes in farmers' supply (Bittou) or only weakly (Niangoloko). This suggests that traders, especially in the case of Bittou where all cattle exports were purchased at the frontier market, dictate prices. In contrast, export traders in Niangoloko made 69% of their purchases from upstream collection markets and farm gates. This higher level of upstream activity assisted price transmission, which explains the higher level of price responsiveness recorded in Niangoloko.

The low level of market integration and weak livestock price transmission indicate a need to put in place effective market information systems as a policy option for improving pricing that would benefit West Africa's livestock producers.

Livestock market institutions

Information on livestock prices and supplies of livestock and objective standards for buying and selling animals in the markets studied were not available. The absence of these resources negatively impacts trade by increasing the time required for buyers to search for animals with appealing qualities, the ensuing negotiations, payment, and transfer of ownership. At times, these transactions costs are so high that no exchange takes place. This has led to the emergence of market institutions to lower costs and promote exchange.

The most important institutions are traders' associations and intermediaries. Intermediaries exist both as individuals (brokers) and as organised bodies, such as *sociétés de convoyage* (conveyance companies).

Individual intermediaries (brokers)

Individual intermediaries act *ex ante* and *ex post* to influence livestock market transactions costs (see Box 1). Their roles often lower transactions costs and increase the number of successful negotiations, though the marketing margins of sellers may be lowered in the process. For each cattle transaction, the buyer pays the intermediary a flat fee of 500 FCFA. Export traders use intermediaries (up to 97% of the time) for reselling to avoid selling on credit, and only 6% of the time for purchases, probably in order to control cash disbursement directly.

Box 1. Roles of individual intermediaries

Individual intermediaries carry out the following functions:

- Identify sellers having the types of animals that buyers want
- Provide buyers with information on market prices, types, grades and numbers of animals in the market
- Link buyers to sellers and moderate negotiations
- Enforce the terms of exchange by collecting money from buyers and paying sellers
- Witness the transfer of animals and
- Arrange the grouping and transportation of purchased animals for an export trader.

Sociétés de convoyage as organised intermediaries

Traders' accounts show that the shipment of cattle by truck from the Sahel to the coast attracts illegal payments to public agents averaging 150,000 FCFA/truckload of 35 cattle. Traders are obliged to make these illegal payments partly because they often fail to fulfil certain obligations, e.g. vaccination of animals and possession of valid trading licences etc. To facilitate trade and assist illiterate traders to fulfil their obligations, including completion of necessary paper work, *sociétés de convoyage* emerged and for fees that averaged 35,000 FCFA/trip in 2000 but grew to 80,000 FCFA in 2001 would provide services to traders. Traders that engage the services of these companies end up paying a token illegal tax of 1,000 FCFA/checkpoint. Initially, traders found the services provided by these companies convenient as they saved them time and money considering the proliferation of checkpoints, especially in Côte d'Ivoire (see Brief 3). However, the increased fees charged by these companies negate their usefulness by increasing traders' costs and reducing the competitiveness of Sahelian beef in coastal markets.

Livestock traders' associations

The Cooperative des Marchands de Bétail de Sikasso (COBAS) of Mali and the Union Nationale des Associations de Commerçants et Exportateurs de Bétail du Burkina Faso (UNACEB) are the two most important livestock traders associations encountered in the frontier markets. Membership fees range from 3500 to 5000 FCFA with annual dues of about 1500 FCFA. Such market associations seek solutions to some of the constraints faced by traders, which the public sector has insufficiently responded to (see Box 2).

Box 2. Ten priority constraints: Traders' account

The most important constraints to livestock marketing as listed by the livestock traders, in order of importance, are as follows:

i. Limited capital and difficult access to credit
ii. Too many formalities, fees and taxes (legal and illegal) paid during trips
iii. Shortage of trucks at the frontier markets to transport animals to terminal markets
iv. Lack of stock routes—routes specifically created to facilitate movement of animals along cultivated areas to prevent damage to crops and property—for trekking animals to frontier markets
v. Shortage of livestock feed at frontier markets
vi. System of selling on credit to buyers which lengthens the time to recover capital outlay
vii. Lack of training for traders in livestock marketing
viii. Limited external market outlets in other countries
ix. Insufficient support from livestock traders' associations
x. Lack of security (risk of losing animal or money along the trading route).

In Sikasso, many of the traders interviewed revealed that they joined COBAS mainly to:

- reduce search time for trucks used in exporting animals
- solve administrative and social problems related to operating in the frontier market
- obtain cheaper animal feeds sold to members
- acquire an allocation of space in the market stalls available for livestock fattening.

This series of four briefs (available in English and French) summarizes the key findings of the policy research component of a CFC funded project "Improvement of Livestock Marketing and Regional Trade". The objective of the policy research component was to analyse the economic, institutional and policy constraints to livestock marketing and trade in order to provide a basis for new policy interventions to improve market efficiency and intra-regional livestock trade. The study involved six countries namely: Burkina Faso, Mali and Niger as examples of livestock exporting countries and Côte d'Ivoire, Ghana and Nigeria as net importers of livestock.

Ninety percent of the traders interviewed in Bittou and Niangoloko stated that UNACEB played an important role in obtaining credit from a bank and on-lending to its members at interest rates that are 5–10% lower than market rates (which ranged from 25–32%). Roughly, 50% of the traders joined the association to build social capital, 19% to have access to market information and 16% to be able to control or fix livestock prices.

COBAS and UNACEB have, for the most part, succeeded in arranging for transport for their members and in providing them with credit facilities. In doing so they have demonstrated sufficient knowledge and skills to manage transportation and organise finance for the benefit of their members. Organising a network of successful market associations and expanding and strengthening their capacity could, therefore, prove rewarding in solving some of the constraints to livestock trade. Ways of linking successful associations to one another and to financial institutions should be studied, thus enabling associations to mediate between livestock traders and financial institutions. The capacity of market associations to purchase and rent out trucks to their members should also be explored.

Trade policy

Trade policy, in addition to the economic and institutional issues already discussed, also affects intra-regional livestock trade. For example, key trade policy reforms such as trade liberalisation, trade facilitation, exchange and payments systems and investment facilitation are being implemented in different ways and at varying speeds by countries in the region (see Brief 1). Lack of commitment in handling these issues will raise the costs of livestock trade and continue to fuel illegal taxation to the detriment of improved regional trade.

Conclusion

In line with previous work, this study shows that opportunities exist for improving livestock marketing and regional trade in West Africa. This can be done by:

- making credit readily available to livestock traders and private entrepreneurs who wish to go into value added processing of livestock. This can be achieved through the strengthening of traders' associations
- lowering transportation and handling costs
- developing reliable livestock market information systems and
- liberalising, harmonising, and implementing regional policies on livestock trade with total commitment.

References

Boutonnet J.P., Griffon M. and Viallet D. 2000. Compétitivité des productions animales en Afrique Subsaharienne et à Madagascar : Synthèse générale. MAE, Paris, France.

Williams, T.O., Okike, I., Baltenweck, I. and Delgado, C. 2004. *Marketing livestock in West Africa: Opportunities and constraints*. ILRI/CFC/CILSS—West Africa Livestock Marketing: Brief 1. 4 pp.

Okike, I., Williams, T.O., Spycher, B., Staal, S. and Baltenweck, I. 2004. *Livestock marketing channels, flows and prices in West Africa.* ILRI/CFC/CILSS—West Africa Livestock Marketing: Brief 2. 4 pp.

Okike, I., Spycher, B., Williams, T.O. and Baltenweck, I. 2004. *Lowering cross-border livestock transportation and handling costs in West Africa.* ILRI/CFC/CILSS—West Africa Livestock Marketing: Brief 3. 4 pp.

World Bank (2001). World Bank indicators. World Bank, Washington, DC, USA.

CONTACTS

Dr Chris Delgado
ILRI Nairobi
P.O. Box 30709
GPO 00100, Nairobi, Kenya
Tel: +254 (20) 4223422
Fax: +254 (20) 4223001
Email: c.delgado@cgiar.org

Dr Iheanacho Okike
ILRI Ibadan
c/o IITA
PMB 5320
Ibadan, Nigeria
Tel: + 234 (2) 2412626
Fax: + 234 (2) 2412221, 2412974
Email: i.okike@cgiar.org

This publication is an output from the Common Fund for Commodities (CFC) financed project "Improvement of Livestock Marketing and Regional Trade". However, the views expressed here are not necessarily those of CFC or CILSS.