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East Africa Trade Hub

SPECIALTY FOODS SUPPLY-SIDE CONSTRAINTS EAST AFRICA

COMPETITIVENESS AND TRADE EXPANSION PROGRAM

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SPECIALTY FOODS SUPPLY-SIDE ANALYSIS EAST AFRICA

COMPETITIVENESS AND TRADE EXPANSION PROGRAM

This analysis looks at the critical issues affecting specialty food manufacturers in East Africa, and is a follow-up report to the previously published Specialty Foods End-Market Analysis about market opportunities in the United States.

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ABBREVIATIONS

Acronym	Description	Web Address
AGOA	African Growth & Opportunity Act	www.agoa.gov
AATF	African Agricultural Technology Foundation	www.aatf-africa.org
ACDI/VOCA	Agricultural Cooperative Development International/Volunteers in Overseas Cooperative Assistance	www.acdivoca.org
AFSTA	African Seed Trade Association	http://afsta.org
AGMARK	Agricultural Market Development Trust	
AGRA	Alliance for a Green Revolution in Africa	www.agra-alliance.org
ARI	Tanzania Agricultural Research Institute	
ASARECA	Association for Strengthening Agricultural Research in East and Central Africa	www.asareca.org
ASCU	Agricultural Sector Coordination Unit	www.ascu.go.ke
ASDS	Tanzania Agricultural Sector Development Strategy	
BDA	Business Development Services	
COMESA	Common Market for Eastern and Southern Africa	www.comesa.int
COMPETE	Competitiveness & Trade Expansion Program	www.competeafrica.org
CRS	Catholic Relief Services	www.crs.org
DAC	District Agricultural Committee	
DANIDA	Danish International Development Cooperation Agency	http://um.dk/en/danida-en
DBK	Development Bank of Kenya	www.devbank.com
DEB	German Development Bank	
EAC	East African Community	www.eac.int
EADB	East African Development Bank	www.eadb.org
ECOPIA	Ecological Products of Ethiopia	http://ade-hassoro.org
ECUD	Ethiopian Customs Declaration Form	
EU	European Union	http://europa.eu/index_en.htm
FAO	Food and Agriculture Organization of the United Nations	www.fao.org
FIPS	Farm Inputs Promotion Services	http://fipsafrica.org
GDP	Gross Domestic Product	
GDP	Gross Domestic Product	
ICDC	Industrial & Commercial Development Corporation	www.icdc.co.ke
ICRISAT	International Crops Research Institute for the Semi-Arid Tropics	www.icrisat.org
ICT	Information Communication Technology	
IDRC	International Development Research Center	www.idrc.ca
IFAD	International Fund for Agricultural Development	www.ifad.org
IFC	International Financial Corporation	www.ifc.org
IFPRI	International Food Policy Research Institute	www.ifpri.org
KAA	Kenya Airport Authority	
KARI	Kenya Agricultural Research Institute	www.kari.org
KEBS	Kenya Bureau of Standards	www.kebs.org
KENADA	Kenya National Agro-dealers Association	

KENFAP	Kenya National Federation of Agricultural Producers	www.kenfap.org
KEPHIS	Kenya Plant Health Inspectorate Services	www.kephis.org
KIPI	Kenya Industrial Property Institute	www.kipi.go.ke
KSC	Kenya Seed Company	www.kenyaseed.com
KSH	Kenya Shilling	
NAAIAP	National Accelerated Agricultural Inputs Access Programme	
NALEP	National Agricultural and Livestock Extension Programme	www.nalep.co.ke
PASS	Program on African Seed Systems	
PCPB	Pest Control Products Board	www.pcpb.or.ke
SADC	Southern African Development Community	www.sadc.int
SIDO	Tanzania Small Industry Development Organization	www.sido.go.tz
SME	Small & Medium-sized Enterprises	
SRA	Strategy for Revitalizing Agriculture	
STAK	Seed Trade Association of Kenya	http://stak.or.ke
UPOV	International Union for the Protection of New Varieties of Plants	www.upov.int
VAT	Value Added Tax	
WEMA	Water Efficient Maize for Africa	http://www.aatf-africa.org/wema
WTO	World Trade Organisation	www.wto.org

EXECUTIVE SUMMARY

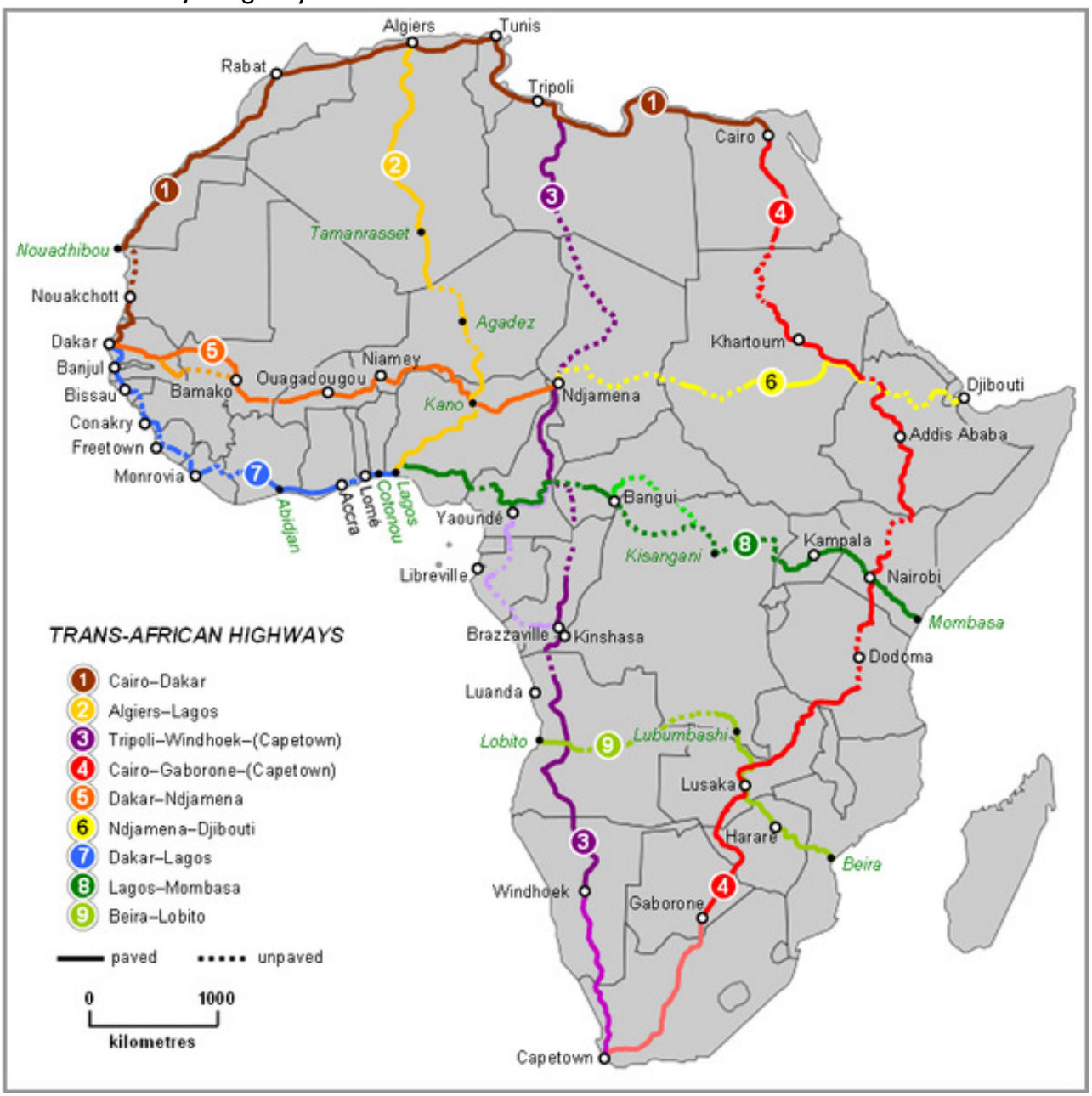
East Africa has a wealth of agricultural possibilities, and many specialty food processors in the region have achieved tremendous sales results in both the domestic and international markets. Several companies have developed innovative and competitive products, in quality packaging with attractive, consumer-oriented branding. They have developed a complex network of brokers and distributors, established to maximize their presence at the retail level in target markets, they alone have researched. Lastly, these companies have established powerful supply chains, able to reduce their costs while ensuring quality inputs and maximum outputs to ensure a sustainable flow of goods to their eager customers.

Sadly, the story described above is a rarity in most of East Africa. Issues along the supply chain plague most, if not all, agribusiness entrepreneurs in East Africa. Fundamental issues that many producers in modernized countries take for granted, like access to financing, packaging, quality inputs and so on, continue to repress the full potential of East African specialty food manufacturers and limit their marketability and international competitiveness.

This report analyzes the specific constraints and obstacles faced by selected specialty food manufacturers in Kenya, Tanzania and Ethiopia, including gaps related to inputs, logistics, access to finance, market information, packaging, storage and legislation. This report aims to highlight the efforts being made by local governments and the donor community, while noting the challenges that still remain. Within each analyzed country, two companies were selected as case studies that exemplify the often up-hill battle which companies face when placed in a less than hospitable business environment.

The potential for value-added food processing (often referred to in this report as "specialty food") is enormous. The power of this industry to shape the lives of every-day East Africans is strong enough to not be ignored. In the countries surveyed, agriculture is the overwhelming source of income for the majority of each country's citizens. Agribusiness, and specifically value-added food processing, is one of the few industries that truly involves all segments of a population.

Africa and its major highways



INTRODUCTION

Without a doubt, there are tremendous opportunities for East African specialty food producers in East Africa. With an abundance of natural resources, tangible culinary traditions, and a strong, international interest in the foods of East Africa, many specialty food producers have been successful at creating a niche market demand across the globe, including in the incredibly competitive US specialty food market. Although several East African companies have achieved success— often with the help of a variety of government and donor-funded programs like the USAID COMPETE program— many more companies continue to struggle against the internal supply chain problems that exist to varying degrees in almost every country in the region. In many cases, visionary entrepreneurs in East African countries face impossible odds for success, including a lack of access to finance, poor infrastructure, a lack of national standards and quality controls, and many more.

If East Africa is to advance its specialty foods industry, many supportive services must be addressed. These supply-side issues are important obstacles that affect the global competitiveness and growth opportunities of specialty food producers across East Africa.

OBJECTIVES

This paper aims to provide a broad overview of the supply-side constraints facing many specialty food producing manufacturers in East Africa. The authors have selected three diverse East African countries – Kenya, Tanzania, and Ethiopia. Within each analyzed country, challenges exist in all facets of the specialty food/value-added food processing industry. Often, the business environment is simply not in favor of small and medium-sized processing. Quality packaging is often not available domestically (and the imported packaging is frequently slammed with unrealistic VAT). Poor quality roads make it difficult to access inputs, distribution and ports. Shipping ports are poorly organized and shipping costs make these value-added products non-competitive in the international markets. Access to finance is most often a concern, as SME food processors struggle to gain access to the capital they so desperately need. Imagine trying to get a commercial loan at 40 percent interest that requires 125 percent collateral (in a country with no land ownership, no less). Difficult, to say the very least!

All three countries have had reasonable success in exporting raw commodities throughout the region and the world, though they continue to struggle with the development of the more entrepreneurial specialty foods sector. Commodities like coffee, tea, sugar, and others are dominated by large-scale, often multi-national organizations who are interested in little more than generating a profit off of the backs of every day East Africans. Although trade in these commodities affects GDP, and certainly plays a role in generating export/foreign currency business, it does very little to impact the lives and upward mobility of the typical East African farmer and business person.

The basis of this paper is formulated from a private-sector point of view, and aims to outline the specific challenges affecting the specialty foods sector in East Africa from a business standpoint. The paper gives little attention to the view points of government agencies, the donor community and the supportive services industry. Rather, this paper focuses exclusively

on the needs of the companies involved in specialty food processing and whether or not they are met.

The methodology used throughout this paper is the result of various interviews with key stakeholders in each country, as well as the extensive experience of the consultants working in the East African specialty foods industry. By assessing the needs of all specialty food producers in East Africa, the authors hope to bring attention to the gaps that so drastically affect competitiveness and growth for hundreds of East African SMEs.

KENYA

Map supplied from www.lonelyplanet.com

INTRODUCTION

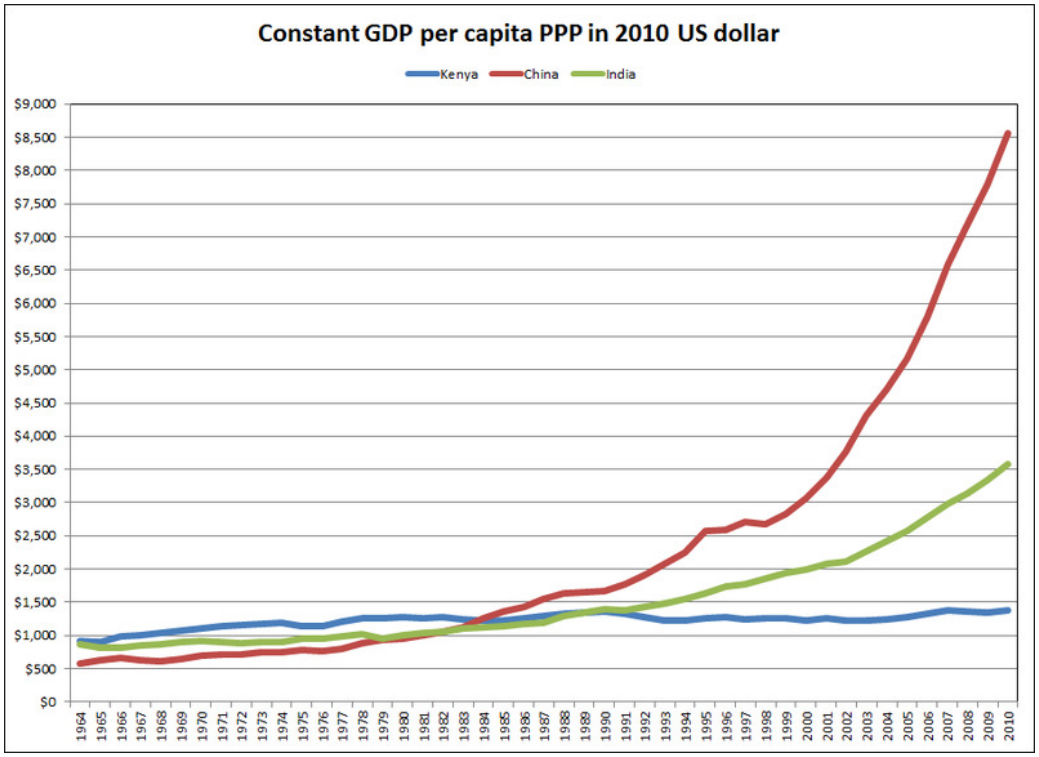
The Republic of Kenya is one of the most productive agribusiness communities in all of Africa. Agribusiness is the backbone of Kenya's economy, contributing to over 25 percent of the GDP and employing over 75 percent of the 38,000,000 people in the labor force. With over 80 percent of Kenyans living in rural areas and deriving their livelihoods from agribusiness, it is no wonder that agriculture and agribusiness dominate.

The principle cash crops in Kenya are tea, horticulture and coffee, with the first two representing the largest recent growth and export earnings – horticulture accounting for 23 percent and tea, 22 percent of total export earnings. In the highlands of Kenya, tea, coffee, sisal, pyrethrum, corn and wheat are all produced. Livestock is the key agricultural activity in the savannas of the North and East. In the low-lying areas, coconuts, pineapples, cashew nuts, cotton, sugarcane, sisal and corn are all produced.

Kenya is also home to a wealth of specialty food manufacturers. Unlike most other East African countries, Kenya has a host of packaging companies to choose from. Kenpoly Manufacturers, Kenya Glass Industries, Alva Laval and many others are creating and supplying quality and affordable packaging options, and Kenya's brand designers are among the best in East Africa.

In 2004, Kenya launched The Strategy for the Revitalization of Agriculture (SRA), with a mission of "transforming agriculture into a more commercial and competitive sector, attractive to private investment, that will generate more jobs and incomes". Since 2010, the agriculture sector in Kenya has been growing by an average of 5 percent annually. Favorable weather

conditions and government policy interventions can be credited with some of this increase, combined with global commodity fluctuations.



Kenya is historically a trade-deficit country, mainly due to vulnerability to both international prices (a dependency on commodity trade) and unpredictable weather conditions. In 2009, Kenya's exports were valued at over $4,900,000,000, with the United Kingdom accounting for more than 10 percent of the total export volume. Other major trading partners for export include Netherlands, Uganda, Tanzania, the United States and Pakistan.

Regionally, Kenya has an impressive list of success stories. Kenyan supermarkets are rapidly expanding their presence in neighboring countries, with Nakumatt, Tuskys and Uchumi leading the way into Uganda, Rwanda and Burundi. Kenya also has a substantial array of companies producing export-quality packaging and processing equipment.

The World Bank "Ease of Doing Business Index" ranks Kenya 109th out of 183 countries in 2012.

CASE STUDY – BROWN'S CHEESE

Brown's Cheese is a family-owned, specialty cheese manufacturer located in Tigoni, Kenya. They currently source raw materials (milk) from three locally-owned cooperatives in Limuru, Lari and Kinankop. In April of 2012, the price of raw milk was 36-38 Kenyan Shillings (KSH) per kilogram; a 50 percent increase from 2010. Because of the rising cost of inputs, Brown's Cheese increased their costs by 19 percent since last year, and their margins are struggling.

These struggles affect not only Brown's Cheese, but also the some two thousand farmers that they work with.

General Manager, Andy Stirling, highlights their major supply chain constraints as high transportation costs and quality controls.

"Farm hygiene is a problem, because it reduces the practical radius that we can source from", says Stirling. "Anything more than 50 kilometers away from our processing facility, and the milk will be bad when it arrives". The lack of proper road infrastructure and cold storage facilities means that Brown's Cheese faces constant challenges with Silage and Tyrobutyric bacteria, a major challenge for any cheese producer.

Another challenge for Brown's Cheese is contract enforcement with various dairy cooperatives. Mr. Stirling indicated that they are "not worth the paper they are written on", as cross-selling is a widespread problem, particularly into the informal market segment. According to Mr. Stirling, the government needs to do more to strengthen and legitimize the dairy cooperatives before they collapse.

The Kenya Dairy Board is the key government agency responsible for implementing and maintaining the Kenya dairy industry, and according to several processors, they are "useless". According to Stirling, "more needs to be done in managing dairy traders".

Brown's Cheese has received support from a number of donor organizations, including Land O'Lakes, KDSCP, USAID, USAID COMPETE and others. They have helped identify potential suppliers and helped promote the company domestically and abroad. Stirling describes the experiences as "extremely positive".

Today, Brown's Cheese products are found across Kenya, particularly in Nairobi, and they also export to Rwanda, Uganda and Tanzania. According to Stirling, "trade barriers make it difficult for us to do business there".

In 2010, Brown's Cheese won nine first-place prizes at the South African Dairy Championships.

Clearly, Brown's Cheese is an innovative and quality Kenyan product with solid export potential. A more effective supply chain, improved policies and infrastructure is all that's

needed for them to continue growing. The availability of cold storage facilities, quality controls at the farmer level and policy changes in the agribusiness sector would greatly improve the business environment for Brown's Cheese and many other companies.

CASE STUDY – FARMER'S CHOICE

Farmer's Choice is one of the very few vertically integrated "farm to fork" meat manufacturing companies in Kenya. They feature their own feed mills of 3,000 pigs and operate the only export-licensed slaughterhouse in the region. Farmer's Choice produces a range of processed beef, pork and lamb products, of which 70 percent is sold in the domestic market. Annually, they produce approximately 14,000 tons of assorted products (sausages, patties, etc), utilizing 90,000 pigs, 20,000 cattle (from out-growers) and 18,000 lambs.

James Taylor, managing director of Farmer's Choice, underlines a number of constraints that exist in their supply chain. First and foremost, he lists the lack of agricultural policy in Kenya. "Kenya often has to import maize and always has to import wheat, which raises my prices for feed dramatically", Mr. Taylor said. "We import soy beans from India and Uganda, and we also have to import all the vitamins and minerals that go into our feed, all of which is not available domestically and all of which is subject to outrageous VAT duty fees," he adds.

Mr. Taylor also highlighted the challenges his company faces with logistics. As Farmer's Choice sources animal collection from every region of Kenya, streamlined logistics are of critical importance to them. One of the biggest challenges is related to massive delays in the port of Mombasa. "The port is permanently congested and mismanaged, and it can take up to one month from the ship arriving in Kenya to receive our inputs to the warehouse". This obviously weighs heavily into the production and reliability of the company.

"The quality of maize and soy bean in Kenya is poor, which is why we have to import. This is the result of questionable seed and the lack of the government to accept genetically modified products; resulting in extremely high costs of production throughout the chain," Taylor adds.

According to Mr. Taylor, Farmer's Choice has never received assistance from any government or donor agency. "The government needs to get their act together, with regard to the agricultural sector", he adds. As for the donor agencies, Mr. Taylor said that a number of donors are attempting to assist, but are not "asking the right people what needs to be done".

Lastly, Mr. Taylor expressed frustration with the East African Community trade agreements, citing that Kenya appears to be "hated" among the other three states. "It's virtually impossible to do business from one country to another without payment of massive bribes at each border," he cites. Their latest frustration came from a 25 percent duty imposed on all Farmer's Choice meat products going into Tanzania, despite the EAC arrangements indicating that they should be at zero percent.

Despite these challenges, Farmer's Choice continues to grow their business both domestically and abroad. Besides dominating the domestic Kenyan market, Farmer's Choice also exports to neighboring African countries, including Tanzania, Uganda, Rwanda and Ethiopia. The company

also exports to West Africa (when transportation allows), the United Arab Emirates and Bahrain. Tanzania is currently the largest export market, followed by Dubai. They are also approaching Saudi Arabia, as they have recently been commissioned an export license for Halal-certified beef.

Farmer's Choice is a great example of a progressive, dynamic company that must consistently find ways around a host of supply-side issues in order to grow the business in a competitively.

POST-HARVEST CONSTRAINTS

PACKAGING

Kenya is one of the few African countries that does not have a significant shortage of packaging options for specialty food producers. Specialty food producers in Kenya have many more options for quality, price-effective packaging than in neighboring countries. As mentioned above, Kenya is home to several high-quality packaging companies, including Kenpoly Manufacturers, Kenya Glass Industries, Alva Laval and many others. PET, cardboard, Tetra-Pak, shrink-wrap and many other packaging options are available at competitive pricing and that meet international and domestic standards.

Branding is equally as important as quality packaging, and again, Kenya is fortunate to have a wealth of graphic designers with progressive design ideas and international experience.

A challenge for many smaller-scale food processors is getting access to these packaging companies. Many specialty food processors experience difficulties in working with Kenyan packaging companies that generally cater to the needs of the large breweries and carbonated beverage suppliers. High minimums and disparaging price points are often a significant challenge for the Kenyan specialty food producer.

COLD STORAGE

In Kenya, a large number of cold storage facilities are private-sector owned. The public sector owns limited pre-cooling and cold storage facilities. Most cold storage facilities are concentrated in Nairobi. Private cold storage is mainly owned by exporters and logistic service providers. Information on the capacity of privately owned horticulture cold storage facilities is scant. It is estimated that the ten leading export companies have a total cold storage capacity of over 1790 tons per day. The four leading companies in providing logistic services, Air Connection, Kuehnet & Nagel, Air-link, and Total Touch, are believed to have adequate cold storage facilities at the Jomo Kenyatta International Airport (JKIA) that cater for export companies that do not own cold storage facilities. There is also a private owned cold storage facility with a capacity of 250 tons per day at the El Doret International Airport.

The public cold storage facilities are owned by the Horticultural Crops Development Authority (HCDA) and the Kenya Airport Authority (KAA). The HCDA owns eight cold storage facilities with a total capacity of 205 tons per day. The KAA owns two storage facilities with a total

capacity of 510 tons per day. These facilities are located at the Jomo Kenyatta and the Moi International Airports.

The cost of operating cold storage in Kenya is quite high, given constant electrical interruptions and the need for back-up generators. Consequently, the usage of such facilities is well out of the reach of many in the specialty foods industry in Kenya.

PHYTO-SANITARY INSPECTIONS & CUSTOM CONTROLS

The agency responsible for phyto-sanitary inspections in Kenya is the Kenya Plant Health Inspectorate Service (KEPHIS). KEPHIS has a mandate to "protect Kenya's agriculture from pests and diseases that could impact the environment, economy and human health".

Additionally, the Kenya Bureau of Standards (KEBS) is responsible for preparing and enforcing standards related to products, measurements, materials, processes, and their promotion at a national, regional and international level. They also provide certification for all industrial products and provide assistance in the production of quality goods and offer improvements in measurement accuracies. One of their critical mandates is the inspection of all goods entering or departing Kenya.

Customs controls, from a VAT standpoint, are managed by the Kenya Revenue Authority. Their Customs Services Department is the largest within the Authority, and maintains a national network or operational offices. All imports and exports must be declared and cleared through them. Together with the Ministry of Trade and Industry, they have produced a Handbook to Importing and Exporting in Kenya, which has shown to be very useful. In addition to the Kenya Revenue Authority, all goods must also clear a variety of other regulatory agencies, including Kenya Bureau of Standards (KEBS), Kenya Plant Health Inspectorate Services (KEPHIS) and Port Health.

Specialty food processors in Kenya are fortunate to have a relatively straight-forward process regarding regulatory inspections, as Kenyan registrations and certifications can be completed in a reasonable amount of time.

PHYSICAL INFRASTRUCTURE CONSTRAINTS

TRANSPORTATION & ENERGY

The companies affiliated to the Kenya International Freight and Warehousing Association (KIFWA) and the Kenya Ships Agents Association (KSAA) are registered to provide logistic services to exporters in Kenya. Whereas KSAA deal with sea freight, KIFWA provides air, sea and land freight services. There are forty seven (47) shipping lines registered with the Kenya Maritime Authority (KMA); twenty one (21) shipping lines are active carriers from the port of Mombasa.

The companies provide logistic services such as: payments for freight and customs charges; customs clearance; and tracking of the shipment from the port of exit to the port of entry. The companies also undertake consolidation of products.

Depending on the availability of the public storage facilities, the produce from smallholder farmers is either pre-cooled or directly transported to cold storage facilities that are highly concentrated around the Jomo Kenyatta International Airport (JKIA). In the case of sea freight, most produce is transported over 500 km in reefers to the port of Mombasa. There are 120 power charging points for perishable reefer containers at the port of Mombasa. The power points enable the charging of containers while awaiting loading onto ship liners thus ensuring continued cold chain management of the produce. On average, logistics for air freight are concluded within 24 hours whereas sea freight logistics are completed within 96 to 120 hours.

Due to the risk associated with the long produce handling chain, the number of exporters seeking "known shipper status" with air carriers is increasing. On average consignments for export companies without the "known shipper status" leave the chilling blower two hours before the flight scheduled departure time. However, for export companies with "Known Shipper Status", on average the consignment leave the blast chilling blower 15 minutes before departure. In addition, export companies with "Known Shipper Status" are waived of handling charges; don't incur costs of jelly packs for maintaining the produce at low temperature before loading into the air craft, and their shipments weigh less.

The port of Mombasa is the hub for sea freight of food products destined for export markets. With rather prohibitive air freight charges, most bulk produce especially fruits are increasingly been transported through the sea.

Shipment by sea is threatened by piracy in the Gulf of Aden and on the East Coast of Somalia. Subsequently, ship liners avoiding the gulf take 22 – 32 days to reach Europe depending on the destination compared to 14 – 16 days via the gulf. Piracy has thus increased the cost of sea freight and the need for investing in special temperature controlling bags for packaging of produce that is shipped through the longer route.

Although to a lesser extent, so-called "group interests" similar to those in the air freight have been reported to operate in sea freight business. It is predicted that unless strong measures are put in place, the operations of "group interests" will significantly increase the cost of sea freight as most people seek for cheaper sea transport for perishable produce.

Despite the comparatively lower cost of sea shipping, most exporters have to contend with congestion at the Port of Mombasa. In addition, there is need to invest in developing crop varieties that are appropriate for sea transport.

Over 60 percent of Kenya's generated electricity is hydro-power, with the bulk of this coming from five generating plants along the Tana River. Combined, these five plants (Kindaruma, Kamburu, Gitaru, Masinga and Kiambere) have a capacity of 400 metric watts.

ROAD INFRASTRUCTURE

As mentioned above, Kenya ranks fairly well in road infrastructure when compared to most of their East African neighbors. According to the Kenya Roads Board, the country has 160,886KM of roads, with only 11,189 remaining unpaved. With a significant number of international and national truck roads, Kenyan specialty food manufacturers do fare better than many of their neighbors, though rural produce suppliers do continue to struggle to link with main road arteries and processing customers in the larger metropolitan areas.

Kenya is also home to two Trans-Africa trade corridors. The Cairo-Cape Town Highway (Trans-African Highway 4), and the Lagos-Mombasa Highway (Trans-African Highway 8), provide seamless transportation options for Kenyan specialty food manufacturers looking to access both ports and regional and African markets.

MARKET INFRASTRUCTURE

Kenya boasts one of the most developed and formalized domestic food markets in all of East Africa. Major supermarket chains dominate food sales in major metropolitan areas, including many domestic brands like Nakumatt, Tuskys and Uchumi. Each of these chains has dramatically increased their domestically produced offerings in the past several years, as quality and reliability have increased.

Of course, the Kenyan food market also has a huge informal sector, which services kiosks, independent supermarkets, local markets and road-side stands throughout the country. As in much of East Africa, this market segment is extremely complex. Traders, local and regional distributors, wholesale markets at the regional level and various levels of brokers and account representatives are all part of this complex system.

Overall, the Kenyan market offers a wealth of opportunity for many specialty food processors.

SKILLS & INFORMATION CONSTRAINTS

MARKET INFORMATION

The lack of statistical data in Kenya, combined with low levels of internet connectivity in rural areas, makes obtaining accurate market information difficult. The Kenyan Bureau of Statistics does maintain information about registered companies, but the accuracy is often questioned. However, internet access in Kenya is widespread, and specialty food SMES have a relatively easy time tracking down market information, with a bit of searching and patience.

Mobile phones have done wonders for Kenya's access to real-time market information. Today, according to The World Bank's Kenya office, over 93 percent of all Kenyans have a mobile phone (up from just 3 percent in 1999). This, combined with a host of mobile applications focused on commodity pricing and real-time market information, has made life much easier for the average Kenyan agribusiness professional.

Information on the opportunities, requirements and processes required for international markets is much less obtainable.

BUSINESS SKILLS

The level of business skills in Africa is generally low, and Kenya is no exception. Access to information and training on a variety of business and industry-specific topics is hard to come by for many specialty food producers. While there are many Business Development Services (BDS) providers in Kenya, many lack the industry-specific skills necessary for specialty food manufacturers to develop. Particularly with regard to export development, manufacturers often have no direction when trying to identify market opportunities, standards, logistics and financial management. In Kenya, the process is significantly easier than in neighboring countries, but there is still no one-stop-shop for companies to utilize.

University-level programs, including those at the University of Nairobi, Jomo Kenyatta University of Agriculture & Technology, Moi University, Kenya Polytechnic and Mombasa Polytechnic are available to provide business training, but again, often lacking in "real world" experience.

INSTITUTIONAL FRAMEWORK CONSTRAINTS

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	132	128	-4
Dealing with Construction Permits	37	38	1
Getting Electricity	115	111	-4
Registering Property	133	133	No change
Getting Credit	8	8	No change
Protecting Investors	97	93	-4
Paying Taxes	166	163	-3
Trading Across Borders	141	141	No change
Enforcing Contracts	127	126	-1
Resolving Insolvency	92	90	-2

* World Bank Doing Business in Kenya 2012

CAPITAL CONSTRAINTS

In the recent past, Kenya has seen tremendous growth and deepening of the financial sector. Kenya had a well developed financial system by 1996, made up of 51 commercial banks, 23 non-bank financial institutions, 5 building societies, 39 insurance companies, 3 reinsurance companies, 10 development financial institutions, 1 capital market authority. 20 securities and equities brokerage firms, 1 stock exchange, 12 investment advisory firms , 57 hire purchase companies, several pension funds, 13 foreign exchange bureaus, and 2,670 savings and credit cooperative societies (Kenya National Development Plan, 1997/2001).

According a World Bank study, there are many SMEs in Kenya which, despite their high potential, have been unable to access financing from existing institutions in the financial sector. Such situations may be due to the inability of the SME to offer sufficient loan collateral or to operational issues within the SME requiring more hands-on assistance than commercial banks and leasing companies, for example, are normally able to provide.

Various sources of finances are available to the SMES from banks, micro-finance, cooperatives, government instruments, international institutions and donors as well as personal finances. These are categorized as public, private, international and personal.

The Development Bank of Kenya (DBK) is owned jointly by the Kenya Government through ICDC, the Netherlands Overseas Finance Company (FMO), Commonwealth Development Corporation (CDC), the German Development Bank (DEG) and the International Finance Corporation (IFC). The bank provides medium-term local and foreign currency financing for projects in the industrial, agro-processing, and tourism sectors.

East African Development Bank (EADB) was established in 1967 with its headquarters in Kampala, Uganda. Its mandate and role were reviewed in 1980 and its operational scope expanded. The bank's shareholding is held primarily by the governments of Kenya, Uganda and Tanzania. The EADB provides medium and long-term loans designated in foreign currencies. EADB finances projects and offers a broader range of finance services in member states with a view to strengthening regional economic cooperation.

Eastern and Southern African Trade and Development Bank (PTA Bank) The PTA Bank was established in November 1985 to provide financial and technical assistance to projects and trade activities which have the potential of promoting economic growth and integration in the COMESA sub-region. The PTA Bank provides financial resources to both public and private sector projects in manufacturing, agro-industry, mining, infrastructure and tourism.

Industrial and Commercial Development Corporation (ICDC) ICDC has been the Government's main conduit for joint venture investments and has made equity investments in many industrial and commercial ventures along with local and foreign partners. ICDC provides project and commercial financing.

The Industrial Development Bank (IDB) is a Government-funded institution that provides medium and long-term loan finance, direct equity investment and guarantees for loans from

other sources. It also underwrites security issues, shares, stocks and similar obligations. IDB now offers full banking services.

The Cooperative Bank of Kenya, Kenya Commercial Bank, Consolidated Bank Kenya Women Finance Trust, African Banking Corporation, Bank of Africa, Bank of Baroda, Bank of India, Barclays Bank of Kenya, Biashara Bank of Kenya, CFC Bank, Citibank, Commercial bank of Africa, Equity Bank, Family Finance, Standard Chartered Bank, I&M Bank and NIC Bank are other leading financial institutions with a focus on agribusiness.

The International Finance Corporation (IFC) is an international organization, established in 1956 to further economic growth in the developing member countries by promoting private sector development. IFC is an affiliate of the World Bank and finances private sector investment projects in agriculture, manufacturing and tourism. IFC extends long-term loans and makes equity investment in projects entailing investment of more than US$ 20 million. It normally does not finance more than 25 per cent of the project cost. The term loans are generally made in foreign currencies. IFC also manages the Africa Enterprise Fund which can support projects with lower project costs.

European Development Banks A number of European development banks provide finance to ventures in Kenya. They include the Netherlands Overseas Finance Company (FMO), the Commonwealth Development Corporation (CDC), the German Development Bank (DEG), the Danish Development Bank (IFU), and the Swedish Fund for Industrial Development of Africa (SFIDA). Private insurance and pension funds are also important mobilizers of long-term savings in Kenya. These institutions normally invest their funds in real estate and listed securities.

Industrial Promotion Services Ltd. (IPS) is a venture capital company owned by The Aga Khan, IFC, Kenya Commercial Bank, and a merchant bank in the U.K. It offers equity investments of up to 40 percent of the share capital, provides loans and offers management assistance. IPS also assists in project development and in locating sources of technical know-how.

Due to difficulties in accessing finances, many SMEs, with limited credit and collateral, start with personal savings, or finances borrowed from family and friends.

There are many micro-finance institutions in Kenya, and they are popular source of finances to SMES in Kenya. They are “generally” more flexible with their lending requirements than traditional financial institutions. Some of the most popular micro-finance institutions in Kenya are Faulu Kenya, Jitegemee Trust, Kenya Women Finance Trust, Small and Micro-Enterprise Program (SMEP) and K-Rep.

Access to capital, while still in need of improvement in Kenya, is not nearly as challenging for food processing SMEs as it is in neighboring countries. Kenya’s policies on land ownership, and relatively stable interest rates make lending and access to that lending “not so bad”.

ASSOCIATIONS

Most of Kenya's trade volumes can be attributed to their membership in several regional trade blocs, including the Common Market for Eastern & Southern Africa (COMESA) and the East African Community (EAC). Kenya also enjoys trade preferences with a number of countries, including the United States' African Growth & Opportunity Act (AGOA).

Nationally, Kenya has no shortage of recognized associations developed to assist commercial entities in a variety of industry specialties. The Kenya Association of Manufacturers (KAM) . Other, more specific associations include the Kenya Coffee Traders Association, Tea Trade Association, Kenya Federation for Alternative Trade, Seed Trade Association, Dairy Traders Association and many, many others. Generally speaking, many in the private sector have had less than positive experiences with many of the associations; often citing corruption, lack of international market information and quality standards as major obstacles in the implementation of associations.

One of the newest associations to be formed in Kenya is the Kenya National Agro-dealer Association (KENADA).

The Kenya Bureau of Standards (KEBS) is of critical importance to the specialty food manufacturer, as their certification is required before any product can be sold domestically or exported.

Lastly, another organization of critical importance to specialty food manufacturers in Kenya is the Kenya Export Promotion Council (EPC). This is a government organization that is focused on developing export markets for Kenyan manufacturers of a variety of products. They provide trade information, trade policy facilitation, export market development, product development services and a variety of training programs. Additionally, they are the liaison office for the African Trade Insurance Service.

TRADERS

The formal distribution systems in Kenya are quite sophisticated, as Kenya boasts a tremendously developed supermarket industry.

In order for a trader to service the supermarket industry in Kenya, most stores will require them to comply with the following regulations:

- Must be registered with the Registrar of Companies under the provisions of the Company Act.
- Must possess a PIN certification from the Kenya Revenue Authority.
- Must be registered for VAT and be issued a VAT certificate or exemption letter.
- Should have a good reputation with no record of fraudulent dealings and must maintain high integrity in all business transactions.
- Must have products that meet health, safety and standardization requirements as set by the Kenya Bureau of Standards.

- Must present products that are properly packaged and labeled and bearing a Bar Code issued by GS1.

The informal market system is, as in most of East Africa, of critical importance to specialty food manufacturers looking to target the domestic market (particularly for more cost-sensitive products). The informal market is characterized by being easier to access than the formal sector, small-scale operations and less regulated policies. Within the informal sector, there is a host of players, including various traders, local distributors and informal account representatives; each working on a commission of approximately 3-5 percent.

CORRUPTION

Corruption has long been one of the biggest impediments to Kenya's economic growth. Following foreign aid frauds in 2005-2006, international agencies delayed fund advancements. The post-election violence in 2008 worsened the economic climate.

The Corruption Perceptions Index ranks Kenya 154th out of 182 countries.

It is estimated that the average urban Kenyan pays over 16 bribes per month. While most of these are fairly small, larger bribes are also common-place (bribes over 50,000 Kenyan Shillings account for nearly 41 percent of the total value.[1]

INPUT CONSTRAINTS

SEEDS & FERTILIZER

Prior to the liberalization of the seed industry in Kenya, the sector was dominated by the public sector. The result was a poorly managed, monopolistic-style of low-quality seed imports and distribution. However, since liberalization, significant improvements and reorganizations have occurred. Today, Kenya's seed and fertilizer industries are amongst the very best in East Africa, and represent a clear direction forward.

The main responsibility of the Ministry of Agriculture (MOA) in Kenya is to "develop and coordinate the policy and strategies for the industry". The MOA facilitates research, provides advisory and information services, reviews policy and regulatory issues and facilitates partnerships amongst the industry. It regulates the seed industry predominantly through the Kenya Plant Health Inspectorate Services (KEPHIS).

The main responsibility of the Ministry of Agriculture (MOA) is development and coordination of policy and strategies for the industry, and therefore its role is to create the right environment for smooth operation of the industry. The MOA facilitates research, provides advisory and information services, reviews policy and regulatory framework and facilitates partnerships among industry players. It regulates the seed industry mainly through the Kenya Plant Health Inspectorate Services (KEPHIS), as mentioned above.

[1] Transparency International (2011)

The thrust of government's policy on seeds and other farm inputs, as contained in the Strategy for Revitalizing Agriculture (SRA), is to improve quality, accessibility and affordability of the inputs. This is expected to be achieved through strengthening of quality control institutions; training input suppliers on quality maintenance; strengthening of public input supply organizations such as KFA and Agricultural Development Corporation (ADC); expanding the capacity of national agricultural research system to produce adequate quantities of breeder seeds; promoting private sector investment in input business; building stock (agro-dealers') capacity to increase input supply and provide information and marketing services; building capacity of farmers' organizations to procure inputs in bulk and resell to members; reviewing tax system to eliminate tax on agricultural inputs; and facilitating access to agricultural credit by reviewing credit and financial regulations. Although the MOA envisages a seed (input) industry that is largely market-driven, it does not seem prepared to completely surrender input supply to market forces, as implied by the intended revival of public input supply organizations mentioned above. Moreover, it directly participates in the inputs market by supporting programs that distribute (subsidized) seeds and fertilizers to smallholder farmers who are unable to access quality inputs.

The formal seed sector is comprised of approximately 445 registered varieties, of which 50 percent are cereal crops (KEPHIS 2009). The 222 cereal crop varieties are dominated by maize (74 percent). Kenya's formal seed system has several constraints limiting their effectiveness, including:

- Inadequate information about availability, characteristics and performance of new varieties.
- Low and unpredictable seed demand, particularly amongst poor small-holder farmers in low rainfall areas.
- Distant and unreliable seed sources which increase costs.
- High retail prices when compared to the informal see sector.
- Poor quality of seeds despite certification and quality controls from KEPHIS
- Tendency of the formal seed sector to focus on maize hybrids and high rainfall areas.

The informal seed system, commonly known as the "Farmer Seed" system, is comprised of farmer-managed seed production and is based on indigenous knowledge and local diffusion mechanisms. The informal seed system mainly operates at the community level and faces several challenges, including:

- Lack of adequate seeds to meet farmers' needs.
- Poor linkage with public research and the formal seed sector.
- Lack of skills and capacity amongst farmers to effectively maintain genetic purity and disease controls.

Quality seeds and inputs are critical to the specialty food manufacturer, as they directly impact the quality, price and reliability of their final product.

IRRIGATION

Traditional irrigation in Kenya dates back almost 400 years; much longer than most East African countries. Today, Kenya is more advanced in irrigation than many of its neighbors, utilizing low-cost technologies for small-scale irrigation. Kenya's total irrigated land area is approximately 80,000 HA, which is still much lower than the estimated potential (FAO, 2005) of 300,000 HA.

As mentioned above, the overwhelming majority of Kenyans work in agriculture, listed at approximately 80 percent. Of these, 85percent are small-holder farmers. Agriculture in Kenya is predominantly rain fed (FAO, 2005). Approximately 18 percent of the land in Kenya is high-to-medium potential agricultural land, and supports 80 percent of the population. The remaining 20 percent of the population lives on the remaining 80 percent of the land, which is arid and semi-arid, and is subject to low, unreliable and poorly distributed rainfall.

The FAO estimates that less than 1 percent of Kenya's farmland is irrigated.

The result of this for the specialty food producer is a lower quality of raw materials, unreliable fulfillment rates and higher costs during low-peak growing seasons. Nationally, Kenya would do well to continue exploring low-cost, easily implemented irrigation systems while providing SMES the required tools necessary to procure and implement said systems.

TANZANIA

Map supplied from www.lonelyplanet.com

INTRODUCTION

The United Republic of Tanzania is a country that covers an area of 945,090 KM and has a coastline of 1400 KM, with ports situated on the Indian Ocean and Lake Victoria. Tanzania is extremely dependent on foreign aid. Official Development Assistance (ODA) to Tanzania increased from $1,600,000,000 in 2000 to $3,000,000,000 in 2009, and accounted for 14 percent of Tanzania's GDP.

In the 1980's and 1990's, the government of Tanzania began a substantial "trade liberalization" program that removed virtually all restrictions on the private trade of grains and other commodity crops. Despite this, a range of barriers still exist for specialty food manufacturers to successfully develop a viable supply chain and compete effectively. The government's initiatives, including the Structural Adjustment Program, have made drastic improvements at the macro-level, but those positive effects are often absent at the small-scale entrepreneur level.

Tanzania's primary export commodities include gold, coffee, cashews, manufactured products and cotton. In 2009, total agricultural exports were valued at over $2,744,000,000 (up from $2,413,000,000 in 2008). India remains Tanzania's largest trading partner, absorbing 8.10 percent of their total agricultural exports, followed by Japan, China, United Arab Emirates, Netherlands and Germany, by volume.

From 2001-2005, the agriculture sector in Tanzania grew by 5 percent, which was slightly below the GDP growth rate of 6 percent, but was still promising. However, during this same period, agricultural exports fell 20-40 percent (statistics vary), as exports from other sectors, most notably from the mining industry, grew significantly faster.

The World Bank "Ease of Doing Business Index" ranks Tanzania 127th out of 183 countries in 2012.

CASE STUDY – DABAGA VEGETABLE & FRUIT CANNING COMPANY

Since 1979, the Dabaga Vegetable & Fruit Canning Company has been producing a range of preserved fruit and vegetable products for both export and the domestic market.

Dabaga has introduced several innovative concepts over the past several years. In early 2000, Dabaga introduced PET bottles for their packaging, which are made from 100 percent recycled materials. They have established an extensive out-grower network which works with over 500 farmers across the Iringa (Southern Tanzania) region. Lastly, they established a cost-effective training program to encourage farming communities to produce higher yields and reduce waste.

Though their primary product is tomato sauce, they have expanded the range to include ketchup, chutneys, jams, juices, sauces and an extensive range of pickles. Dabaga is currently processing approximately 6 to 8 tons of tomatoes per day, along with their other production lines.

President of Dabaga, Vikram Desai highlighted a number of constraints the company faces, including supply and quality of raw materials. Tanzania, despite producing a significant amount of fruit juice, actually imports fruit concentrate from Ireland (63 percent), Swaziland (27 percent) and South Africa (8 percent). Dabaga continues to try and expand the local sourcing of raw materials, but educating out-growers and guaranteeing quality and supply is a difficult, uphill battle.

Photo by Katie Laidlaw (2009)

Additionally, Dabaga faces strong competition for exports. The packaging available locally is of low quality, so they must import their packaging from abroad. Hence, the costs go up. Dabaga is well positioned in the domestic market, and does export, but work well below capacity for the reasons mentioned above.

CASE STUDY – TANGA DAIRY COOPERATIVE UNION

The Tanga Dairy Cooperative Union was formed in 1993, as a producer organization representing nine dairy producers from five districts (Tanga, Muheza, Pangani, Korogwe and Lushoto). Their membership includes 1,500 milk producers and 3,000 dairy farmers, and 40 percent of their membership is women. Milk is collected daily from storage facilities in each district, and is then sold on to the sister company, Tanga Dairy Fresh, for processing and packaging. The company is a joint venture with private Dutch investors. They utilize a streamlined quality controls process, and have solid market penetration locally but do not currently export.

Companies such as Tanga Dairy Cooperative Union offer great opportunities for the average dairy farmer, as the organization offers a variety of benefits to their suppliers and members. First and foremost, the members have a reliable market (Tanga Dairy Fresh) for their raw materials. Payments are made immediately, and they are able to offer quality product as a result of the training and inputs they receive through the organization. They also have access to union-sponsored loans, which allows them to expand their herds, utilize cost-sharing on machinery and shared veterinary services. These are all benefits to the supply chain (farmers), which are rarely found in a non-cooperative based organization.

However, the organization still struggles with a host of challenges. Market development, is by far the most critical. The organization does sell to the sister company, but actually are working well below capacity. In short, they could sell much more, but have no capacity (storage, collection, inputs) to expand operations. Also, Tanga Dairy Fresh lacks the quality packaging necessary to enter the regional, mainstream markets. The plastic-bag packaging they use is sufficient for the local market, but does not meet the requirements for the mainstream domestic supermarkets like Shoprite. Lastly, they only have access to their own funded financial resources, and struggle to develop a lasting relationship with a commercial banking institution. The lack of financial capital certainly hinders development and growth. The company hopes to start producing more "specialty" products, including cheese and butter, but these constraints limit production to nothing more than small-scale production for testing and very localized consumption. Extremely inexpensive, and often low-quality dairy imports also hinder growth.

There is a huge opportunity for growth for Tanga Dairy Fresh, considering that in a 2008 Matchmaker study, approximately 48 percent of all dairy products were imported, and even then, the demand was unmet. Increasing local demand means that the Tanzanian dairy industry, as a whole, falls short by almost 4,000,000 liters (per day). Thus, there is ample room for growth.

In short, Tanga Dairy Cooperative Union and Tanga Dairy Fresh mirror what is happening in Tanzania in both the dairy industry and, more broadly, the specialty food industry.

POST-HARVEST CONSTRAINTS

PACKAGING

Packaging options in Tanzania are limited, at best, and much of the quality packaging sourced by food processing companies comes from Kenya, South Africa or elsewhere. Rudimentary packaging for edible oils, rice and other grains targeting the local market are readily available in Dar es Salaam, but beyond that, the focus is on imports. This represents a significant challenge to Tanzanian food processors that have a difficult time competing with imports on both quality packaging and cost (due to the high VAT penalties of using imported packaging).

Tanzania also suffers from a lack of quality graphic designers who possess the branding skills necessary to target a higher-end consumer. This lack of internal skill, again, weighs heavily on

the potential specialty food manufacturer in Tanzania, who must outsource their talent pool abroad.

COLD STORAGE

According to the Board of External Trade, approximately 40 percent of all fish caught in Lake Victoria are lost due to insufficient storage facilities. Cold storage facilities are practically non-existent in Tanzania for most specialty food producers, or are subject to unstable electricity supply. There are a few larger, mostly multi-national producers that do have their own cold storage facilities, but they are rarely available for the small-scale specialty food manufacturer. The Tanzanian Airports Authority (TAA) is currently developing a cold storage facility to help exporters (of most fresh produce), but this facility is not currently operational. Lastly, there are few (or no) cold storage facilities in the rural areas where most of the supply into specialty food producing companies comes from.

PHYTO-SANITARY INSPECTIONS & CUSTOM CONTROLS

Tanzania has made dramatic improvements towards phyto-sanitary policy and customs controls in recent years. While the overall capacity to manage food safety remains limited from both the public and private sector, certain value chains have seen drastic improvement, as exemplified by Tanzania's successful response to an EU ban on fish exports. In the case of groundnuts and honey, initiatives have been less successful, and Tanzania has been forced to focus on export markets whose standards are less stringent and/or not rigorously enforced.

Tanzania's official system of food safety controls and promotion rests on several pieces of legislation and involves multiple institutions, not always acting in a coordinated fashion. Prior to independence, food safety responsibilities were divided between the Ministries of Health and Agriculture. With the enactment of the Food Control of Quality Act Number 10 of 1978, a National Food Control Commission (NFCC) was established to oversee food control activities. Numerous specific regulations were subsequently enacted to deal with specific dimensions of food safety or the safety of particular products. The NFCC's primary function was to coordinate and audit food inspection activity. Most of the latter was carried out by employees of local government authorities, essentially health, meat, produce or other inspectors. Lines of authority and accountability were problematic and all product testing was centralized in Dar es Salaam.

Meanwhile, various other institutions were also ostensibly monitoring food product quality and safety, including the numerous commodity boards (for dairy, sugar, cashew nuts, etc.) established by government, public authorities dealing with animal health and the safety of animal products, and the Tanzania Bureau of Standards (TBS). The latter has become increasingly involved as most of the national standards for food have been made mandatory (see below). A Memorandum of Understanding was signed between the NFCC and the TBS, whereby the former would focus its inspection and monitoring activity on food manufacturing premises, while the TBS would inspect and certify (processed) food products. Still, other Boards or other Ministries were also involved when particular foods were involved (i.e. milk, fish).

In 2003, a Tanzania Food, Drugs, and Cosmetics Act (No 1 of 2003) was enacted, repealing previous food and drug control laws and creating a unified agency, the Tanzania Food and Drugs Authority (TFDA), within the Ministry of Health. The governing regulations under the Food (Control of Quality) Act (now repealed) were to remain in force until new regulations were established. With regard to food, the TFDA's main functions are to:

- Regulate the importation, manufacture, labeling, marking, identification, storage, sale, and distribution of food.
- Test or facilitate the analysis of food and/or food products to ensure safety for human consumption.
- Prescribe minimum quality standards for imported and locally manufactured food.
- Enforce the regulations and apply penalties for non-compliance.
- Address consumer complaints.

The TFDA's mandate thus centers on protecting domestic consumers. However, its significant mandate has not been accompanied by the requisite resources to implement the required actions. While recognizing its young age, it is clear that this Authority exercises little effective authority on food safety matters. Several parts of its mandate overlap with the on-going activities of the TBS, including the prescribing of minimum standards, testing activity, inspecting food imports and other areas. The TBS has access to far larger resources and staff and has a well established reputation within the business community. As yet, there is little formal coordination between the two agencies. There is also no agreed upon division of labor. This would appear to be a necessity given the limited resources and manpower which Tanzania can afford to devote to food safety management and given the need to carefully prioritize interventions in this field, both to protect local consumers and promote the country's trade.

The TFDA has a limited staff and even more limited physical infrastructure. Its eight national auditors are responsible for supervising all inspection activity, yet they have limited capacity for doing so. Most of the inspection activity is carried out by employees of local governments. These are generally health or veterinary officers with little training or specialization in food inspection. In addition to inspecting food markets, these officers are supposed to inspect food manufacturing premises, although most lack knowledge of specific food manufacturing processes and have not been trained in HACCP and related principles. The TFDA has only a skeletal post-market surveillance system (consisting of one staff member), although this too is an area where TBS is involved.

The TFDA observes that there is very little awareness about proper hygiene methods among food handlers in Tanzania and little awareness and adoption of HACCP principles in the food manufacturing sector. It has been doing a limited amount of seminars and other outreach activities in these areas but has been constrained by its financial resources.10 Thus far, the HACCP approach has been widely adopted only in the export-oriented fish processing sector, as required by certain destination markets. Otherwise there has been very limited HACCP adoption, with a few examples in the dairy and poultry industries.

The TFDA posts inspectors in the major ports of entry, while local government officials inspect foods entering through many relatively minor ports or border posts. Inspectors at most entry

points lack communication facilities or field test kits of any sort. In the past there have been several incidences of shipments of cereals involving containing mold or mycotoxins and thus TFDA regularly tests samples from large import consignments of cereals. Otherwise, either random inspection is done or attention focuses on those products and origins for which problems have been experienced in the past. The testing of consignments is done at TFDA's own laboratory which has only limited capacity or outsourced to the Government Chemist Laboratory.11 Meanwhile, the TBS has its own inspectors positioned in the major ports to inspect and subject to testing all foods for which there is a mandatory national standard. Further, since 2003, all imported foods must be tested for radiation by the Tanzania Atomic Energy Commission. Tanzania's limited food imports certainly do seem to be attracting a great deal of attention by inspectors. The costs of these 'services' are paid by consumers.

In late 2003, the TFDA released guidelines for the registration of pre-packaged food products. These apply to both imported and locally manufactured foods. Substantial registration fees would be applied for the inspection of manufacturing premises and for individual food products.

Further, in cases involving dairy, meat, fish or other relatively high-risk products, the applicant must demonstrate that they are implementing a HACCP plan and have a certification of compliance for this plan. These guidelines have not been implemented as several Tanzanian importers and food manufacturers have taken the TFDA to court.

It is not evident that the proposed Guidelines are the most appropriate way to meet the food safety challenges which Tanzania currently faces. Most packaged foods from domestic food processors are already tested and certified under a TBS scheme, either because the products are subject to mandatory national standards or because the manufacturer sees value to obtaining the TBS certificate mark. Many imported pre-packaged foods are sold through supermarkets, retailers, or hotel operators which have a strong incentive to ensure the safety and proper labeling of the items. Random post-market inspection, rather than mandatory pre-registration, would appear to be a more appropriate approach under prevailing circumstances.

While requiring food manufacturers to apply (certified) HACCP systems might be appropriate in the long-term, it almost certainly is not under the present conditions in which there is little general awareness about HACCP, minimal local capacity to provide training and certification of HACCP, and virtually no capacity to enforce such a Guideline. Further, the associated increases in costs could lead to increased food prices; a major economic issue for low-income consumers. In the short to medium term, attention should be focused on awareness building and HACCP system application, perhaps starting with selected industries where risks are seen to be relatively high.

Although the Tanzania Food, Drugs, and Cosmetics Act does make reference to exports, the TFDA has no direct involvement in monitoring foods for export. Neither does the TBS, except in its capacity to certify the quality of certain packaged foods. Few of these are traded in any real quantity. Unlike the situation in many other countries having relatively large tourism industries, in Tanzania there is currently no system of monitoring tourists for incidences of food-borne illness, nor a reliable system in place to inspect and raise the underlying hygiene standards in food establishments catering to tourists. This is not a peripheral issue, as the

tourism sector is large and growing steadily. Except for fish, the value of the food supply to Tanzania's tourism industry greatly exceeds its non-traditional food exports.

Tanzania's largest export of a food product with food safety concerns is fresh and frozen fish. The testing of these products and the certification of hygienic processing and handling practices is carried out by the Fisheries Department of the Ministry of Natural Resources & Tourism. In the horticultural sector, European market concerns with pesticide residues are addressed by the export companies themselves and via testing abroad. For many other products, exporters send samples to (external) certified laboratories when this is required by a foreign market regulator or buyer.

PHYSICAL INFRASTRUCTURE CONSTRAINTS

TRANSPORTATION

Tanzania serves as a transit country for the import and export industries of Malawi, Zambia, the Democratic Republic of Congo, Burundi, Rwanda and Uganda, all utilizing the port of Dar es Salaam, as well as for their own domestic trade.

In order to enhance efficiency in the transportation sector, the central government has decentralized its roles in road construction and maintenance of transport infrastructure. It has put in place institutional, legal and regulatory framework for efficient, effective sustainable transport operations in the country. Rural roads construction and maintenance are implemented by the Local Government Authorities, whereas supervision on the construction and maintenance of major roads is the responsibility given to the Tanzania Roads Agency (TANROADS), which is a semi autonomous body.

Realizing the need for establishment of a regulatory body to oversee the economics and safety aspects regarding the surface and marine transport systems the government passed the Surface and Maritime Transport Regulatory Authority (SUMATRA) Act (2001). In recent years there has been a fast increase of vehicles in the country. This has led into serious traffic congestions particularly in big cities such as Dar es Salaam, Mwanza and Arusha.

Therefore, in order to mitigate the traffic congestion in Dar es Salaam the government has established an authority (Dar es Salaam Rapid Transport Agency) responsible in designing and operational rapid transport network for the city. The government is also encouraging private operators to create medium-size commercial fleet operations; establishment of the commuter city bus transport companies; and provision of infrastructure facilities for Dar es Salaam City

Construction of fly-over roads is also considered as another means to mitigate traffic congestion in large cities in Tanzania.

In the railway transport system, the Railway Act (2002) was enacted as a process of restructuring the Tanzania Railways Corporation (TRC). The Act has clearly separated the functions of running the railway business from ownership of the infrastructure assets and its

regulations. Railway services are relinquished to the private sector while economic and safety regulation remains under SUMATRA.

On the other hand, the Tanzania Civil Aviation Act (1977) has been reviewed to enable Tanzania Civil aviation Authority to perform safety and regulatory functions. Moreover, the Tanzania Airport Authority (TAA) has been given the responsibility to run and manage airports. The Civil Aviation Act was further reviewed in 2003 to enhance the role of TAA in Bid to protect consumers and environment and to give more powers to the Authority.

Air transport has been liberalized since 1992 and to-date, about 29 air carriers for both scheduled and chartered services has been licensed. The national airline, Air Tanzania Cooperation (ATC) has been privatized with government retaining minority shares. For efficient air transport services, Tanzania strives to construct Aircraft maintenance Hangers at J. K. Nyerere International Airport(JKNIA), and Mwanza and Arusha airports; construct Airport Hotels at, JKNIA, and Mwanza Arusha and Mafia Airports; Develop EPZ at JKNIA, Kilimanjaro International Airport (KIA), Mtwara, Kigoma and Songwe Airports; establish Cold Storage Facilities at Kigoma and Mwanza Airports; construct first and business class lounges at JKNIA; and expand Arusha Airport, to accommodate bigger aircraft.

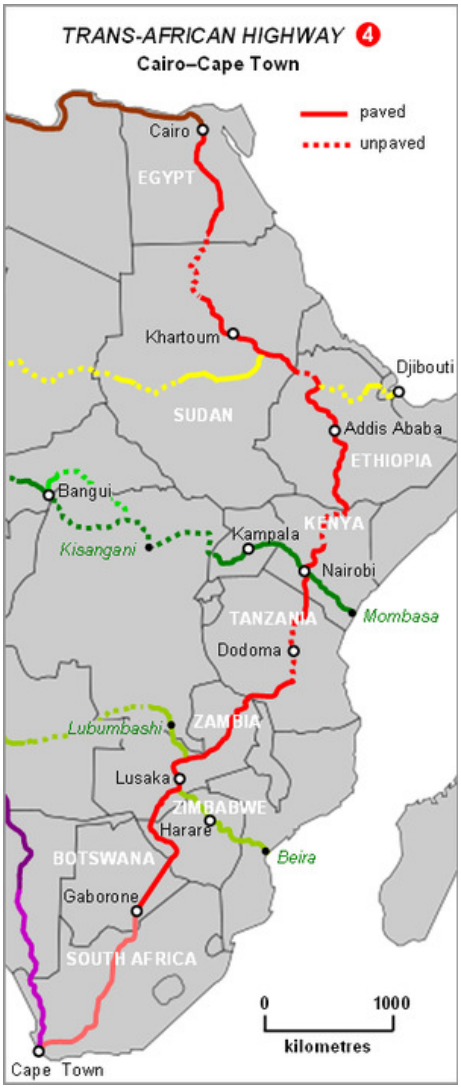
In an effort to improve its economic performance, Tanzania is pursuing economic integration through several bilateral and regional trade protocols. Currently, Tanzania is a member of the Southern Africa Development Community (SADC) and East African Community (EAC) Regional blocks. Also, Tanzania has concluded a customs union with the East African countries, Tanzania, Kenya and Uganda as a way of facilitating trade amongst the member states. Most of the constrains to cross-border trade and investment are considered to be related to the limited development of transport and communications networks in the region and to inadequacies in the rules and regulations governing trade, payments and investment in different countries.

The EAC and SADC member states are trying to address this bottleneck. Under EAC, a number of common transport and communications programs and projects aiming at simplifying transport and communications in the region are being developed. Among the major contribution of the cost of inputs and consumer goods as well as the price of traded goods, is the cost of transport whereby in the region is high and approximated to be four to five times as compared to that in developed countries. For landlocked countries, the cost accounts for 30 - 40 per cent of the price of goods. Low levels of the intra-regional trade in the region are a result, of among other things poor transport and communications infrastructure. It is the desire of Tanzania to reduce transportation costs with the objective of achieving competitiveness, poverty alleviation, and sustainable development. One of the main objectives of Tanzania's Development Vision 2025 and those of EAC and SADC partner States is to attain faster economic growth in order to reduce and in the long run eradicate poverty. The major thrust is towards:

Improving road and rail network; Improving marine and air transport; Minimizing border posts delays; Reducing insurance costs; Attraction of investment in infrastructure development; Involvement of private sector in infrastructure operation and service provision; and Effective legal and regulatory reforms.

Tanzania is committed in development of transport corridors with view of facilitating transit trade with neighboring countries, including: infrastructure development and inter-modal linkages; Interconnection of railway systems, development of container terminals; rehabilitation and revamping, maintenance of existing infrastructure and resources mobilization.

There are four major development corridors which need to be developed, including Central corridor (Dar es Salaam - Kigoma railway network); Tanzania Zambia Railway (TAZARA) Mtwara corridor (extending from Mtwara port in the southern part of Tanzania and joins the Dar es Salaam Corridor at Tunduma in Mbeya region); and Tanga Corridor (extending from Tanga port in the Northern part of Tanzania to Uganda through Lake Victoria). Some major projects have been initiated in East African Community member states with view of improving infrastructural systems. Tanzania in collaboration with other member countries have embarked in a number of projects including air, road, railway and maritime projects, such as the East African Civil Aviation Project; (aiming at studying the establishment of East Africa Upper Flight Information Region, Search and Rescue region and an international NOTAM office among others); East Africa Road Network project, (which is about 7426 km); Restructuring of the East African Railways; and Lake Victoria Safety of Navigation Project. The objective of these projects is to develop cross border links with a view to facilitate trade.



Tanzania has 125 operational airports (as of 2009), with 9 paved and 116 unpaved.

Transportation is as critical to the specialty food sector in Tanzania as it is in every other country. Transportation companies in Tanzania, however, face several significant burdens, including consistently rising fuel costs and a variety of government-imposed taxes and fees. As an example, surveyed transportation companies are reported to have to pay an annual "packing fee" of TAS 36,000, an annual "road license fee" of TAS 350,000, various municipal council fees of approximately TAS 500 (per trip/per vehicle) and various village fees of approximately TAS 1,000 (per trip/per vehicle)[2]. Adding these fuel costs and fees to the additional burden of expensive spare parts, and it is clear that the challenges faced by Tanzanian transportation companies directly effects the competitiveness of the specialty food manufacturer's products.

[2] The World Bank Institute, "Agribusiness Innovation in Six African Countries – The Tanzania Experience" (2008)

ROAD INFRASTRUCTURE

Of Tanzania's network of nearly 85,000 kilometers of road, less than 4,000 kilometers is actually paved. In some rural parts, particularly in the South, many roads are impassable during the entire rainy season.

Tanzania has two primary trade corridors; the Central Transport Corridor and the Southern Corridor. The Central Transport Corridor links Dar es Salaam and the coast regions with the western and Lake Victoria regions. This is a critical road that connects the port of Dar es Salaam (via Dodoma) with the four neighboring countries of Burundi, Rwanda, Uganda and the Democratic Republic of Congo. The Southern Corridor is Tanzania's link with the Tazara railway, linking the port of Dar es Salaam with Zambia. The 1,860 kilometer railway connects with the Zambia rail system.

MARKET INFRASTRUCTURE

Domestically, there is an increasing demand in Tanzania for value-added "specialty" food products, particularly around the larger cities and tourist areas. Import substitution is a major focus of many food processors, and represents a major opportunity for Tanzanian specialty food producers.

Milk is widely consumed in Tanzania, although most is not processed except in and around major cities. Tanzania has 22 small dairies, with three of them producing ultra-high temperature (UHT) milk. Small-scale production of butter, cheese, yogurt and cream is focused around Dar es Salaam and targets upper-income Tanzanians and expatriates.

For specialty food manufacturers to access the domestic market, there are generally speaking, four classic routes to go:

- Small-scale farmers selling any surplus to their own family needs directly from the road side, through local small markets, in small-scale sales on the roadside to passing trade in cars and buses
- Traders purchasing from the farm gate or locally known business areas along the roadside and shipping to regional markets for sale to vendors on a wholesale market for onward retail sales or through pre-arranged sales between farmers and Traders at the farm gate. Very few farmers deliver produce to the markets themselves due to the associated costs of transportation and market levies.
- Traders or commissioned agents purchasing wholesale quantities from several farmers to fill a truck, trans-shipment to Dar es Salaam for wholesale at Kariakoo or Tandale market. Kariakoo market receives over 80 percent of the onion transactions in Dar es Salaam and the Dar es Salaam market is estimated to consume over 50 percent of the country production of fruit and vegetables.
- A few, but increasing number, of supermarket shops and chains are being developed in Tanzania in the main towns and cities. The South African supermarket chain, Shoprite, is the largest supermarket chain in Tanzania with five branches countrywide, four in Dar es

Salaam and one in Arusha. Shoprite are actively expanding their local produce and decreasing the import of fresh goods and are purchasing over 65 percent of their fresh produce directly from the farmers. Shoprite, in an interview with ECI indicated that probably less than 1 percent of fruits and vegetables for fresh domestic consumption are channeled through this route.

In Tanzania, there are currently 227 bakeries; nearly half of which are in Dar es Salaam.

SKILLS & INFORMATION CONSTRAINTS

MARKET INFORMATION

Specialty food processors in Tanzania need information on prices and availability of raw materials, potential markets and consumer trends. Unfortunately, this information is quite difficult to obtain.

In 1984, after years of a State-controlled economy, Tanzania made a commitment to pursuing a market economy by undertaking the Structural Adjustment Program (SAP). Market information services (MIS) in Tanzania dates back to 1970, when the Marketing Development Bureau (MDB) was established under the Ministry of Agriculture. The program was funded by the United Nations Development Program (UNDP), and was tasked with the following objectives:

- To provide advice to the government on marketing policy
- To organize marketing training for the staff that would be required by the Ministry of Agriculture, marketing authorities and cooperatives
- To establish regular market news services
- To set consumer prices
- To carry out research on costs of crop production on behalf of the cooperative unions
- To recommend producer prices for staple and major cash crops

Gathering relevant market information in Tanzania can be challenging. For rural farmers, mobile telephones have opened up a direct link to regional and national traders, with over 20,984,000 mobile phone subscribers in the country.[3] However, internet access remains an inaccessible luxury for most, with only 678,000 internet users in Tanzania; a country of 43,601,796 (July 2012 estimate).[4]

The Tanzanian Export Development Board is also responsible for promoting Tanzanian entrepreneurs and products, while providing them with real-time information on market opportunities and standards. However, much of this information is either completely absent or inaccurate, as noted from their various pamphlets and website.

[3] CIA World Fact Book, 2012-2013
[4] CIA World Fact Book, 2012-2013

BUSINESS SKILLS

Most Tanzanian specialty food producers do not understand the concepts of marketing, market segmentation and designing competitively priced packaging and branding. According to Joyce Mapunjo, Permanent Secretary in the Ministry of Industry, Trade and Marketing, the Tanzanian food processing industry was not progressing at a substantial rate, and student education about food processing was one of the key challenges.

Despite the fact that most of the traders interviewed for this study had been in business for years, the level of knowledge in basic business skills was very low and the businesses were rarely growing. Especially in rural areas the traders are unable to distinguish between revenue and profit, and thus sometimes end up eating their own working capital while thinking that they are running a profitable business. Rotten goods or the time it takes to collect the goods were most often not seen as a cost at all, and thus keeping track of incomes and outgoings becomes difficult. Lack of entrepreneurial skills is also a constraint for the farmer, who has traditionally been producing the same crops and starts finding the markets for them only at the time for harvesting. When the market demand is low and prices fall, the government is often called to come to rescue. Better understanding of the roles of the government and market would help to avoid large dissatisfaction among the producers: it is not a market failure nor the fault of the government if urban consumers do not wish to purchase cassava for a high price. The way forward is not likely to be support for the farmer to keep on producing the traditional crops but to move on to more profitable markets. Training in business skills could facilitate the farmers in coming more market-oriented and changing production patterns to follow the market requirements in order to materialize larger profits from agricultural production and further education in innovative farming and marketing skills are indeed in high demand among the farmers. However, sometimes the choice of livelihood strategy does not depend on lack of knowledge but lack of risk bearing capacity to change behavior when the gains are unknown. Thus the extension services should be accompanied by improvement of social safety nets, credit services, and help to diversify livelihood strategies to counter balance the risk of adopting a new crop.

Business Development Services is one key area in which Tanzania needs to improve, though such services are offered nationwide through SIDO. More specialized services, including food processing, marketing and salesmanship training are all largely unavailable, though substantial improvements are being made through the Tanzania Institute of Food Science and Technology (TIFST).

INSTITUTIONAL FRAMEWORK CONSTRAINTS

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	123	122	-1
Dealing with Construction Permits	176	177	1
Getting Electricity	78	80	2
Registering Property	158	155	-3
Getting Credit	98	96	-2

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Protecting Investors	97	93	-4
Paying Taxes	129	123	-6
Trading Across Borders	92	115	23
Enforcing Contracts	36	33	-3
Resolving Insolvency	122	120	-2

** World Bank Doing Business in Tanzania 2012*

CAPITAL CONSTRAINTS

High inflation remains one of the most challenging issues in Tanzania, and particularly effects the lending options for the agribusiness industry. Despite recent measures by the Central Bank, Tanzania's inflation rate only declined from 19.8 percent in 2011 to 19.4 percent in the start of 2012.

In a 2001 Tanzanian government survey, just over 6 percent of all households had a member with a bank account, down from 18 percent ten years prior. Also noted was the fact that over 85 percent of all micro and small-scale businesses did not have access to any form of credit.[5]

Dunduliza is a Tanzania-wide network of savings and credit cooperatives (SACCOS) which are owned by their members and which provide financial services to households and small businesses. Individual cooperatives are able to access money, personnel and other resources from Dunduliza.

ASSOCIATIONS

A focus on agricultural income has been a key component to the Tanzanian National Strategy for Growth and Poverty Reduction (MKUKUTA, is the Swahili acronym). Despite this, the agricultural sector has not lived up to its potential, and the associations of Tanzania charged with developing the agribusiness sector remain weak and ineffective. Poorly functioning cooperatives, as typical in East Africa, are one root cause of this endemic problem. Corruption and mismanagement are rampant amongst the agribusiness cooperatives, and they remain largely ineffective.

One of the most influential associations in Tanzania is the Small Industries Development Organization (SIDO). With representative office in every region of the country, SIDO provided incubator-like training to food processing entrepreneurs, as well as offering financial services, business development training and shared office facilities. SIDO has strong representation, but does lack the technical skills to develop truly competitive food processing entrepreneurs.

Another rapidly improving organization is the Tanzania Institute of Food Science & Technology. Founded in 2011 with the support of the Tanzania Cluster Competitiveness Program (TCCP)

[5] Source: www.dfid.gov.uk

and the Tanzania Private Sector Foundation (TPSF), the Institute provides a variety of educational and research programs aimed and rapidly improving the food processing sector in Tanzania.

Another important association for specialty food processors is the Tanzania Food Processing Association (TAFOPA). The Association was founded in 1997 with a mandate to provide a business network for food processing companies to engage and to facilitate commerce.

Tanzania is a member of several trade agreements, including the East African Community (EAC) and the Southern African Development Community (SADC).

TRADERS

As in most of East Africa, traders play a critical role in the routes to market for both domestic and international sales of value-added specialty food products. At the local level, traders are small and extremely informal. Most local traders are themselves farmers, with well-established customer bases. Local traders are most often women or children who collect products from local producers and sell them for a small margin. Few local traders push into other market opportunities at the regional or higher levels. To access domestic, regional markets, producers must access

Traders focused on the national market are focused in Dar es Salaam, which houses over 80 percent of the Tanzanian purchasing power. The national market is dominated by large-scale distributors who engage smaller-scaled traders and facilitators. Due to bottlenecks in the capital required to buy and transport large quantities of product, the national market is more limited in access than either the local or regional markets, but represents a significantly larger opportunity in volume. International supermarket chains, historically, have a preference to importing product from their home country, creating a tremendous opportunity for import substitution.

For exports, Tanzania exports very little value-added product, with the majority of exports focused around a handful of commodities: coffee, tea, spices, grains, edible oils, etc. These activities are centered around Dar es Salaam, as well, and again, are dominated by large-scale players.

The "trader" system in Tanzania is clearly well established, and specialty food manufacturers must understand the place for their product and engage the actors associated with each sub-sector.

Marketing margins charged by different traders:

Local traders/brokers of rice in Ifakara	50-100 TSH per KG (10-20 percent)
Regional traders in Mtwara	10-20 TSH per KG (2-4 percent)
Brokers of transport	10 percent of the transport fee (or flat fee of US $100 for shipments abroad)
Large-scale traders	20,000 TSH per trip to buy goods from the regions

Broker for green bananas at Ubungo	200-500 TSH per bunch depending on the price (7-11 percent)
Onion brokers at Kariakoo	2,000 TSH per bag (4 percent)
Grain wholesaler at Kariakoo	10,000-15,000 TSH daily
Rice wholesaler at Tandale market	40+ TSH per KG depending on the quality (8 percent+)
Potato retailer at Kinondoni market in Dar es Salaam	90 TSH per KG (36 percent)
Orange retailers at Tandale market in Dar es Salaam	10-35 TSH per orange (20-70 percent)
Banana retailer at Ilala market in Dar es Salaam	1,500 TSH per basket of 200 bananas (15 percent)
Tanzanian export agent for cashew nuts	25 TSH per KG (3 percent)
Indian export agent for cashew nuts	30-40 KSH per KG (4-5 percent)
Subagents for the exporter of cashew nuts	5 TSH per KG (1 percent)

CORRUPTION

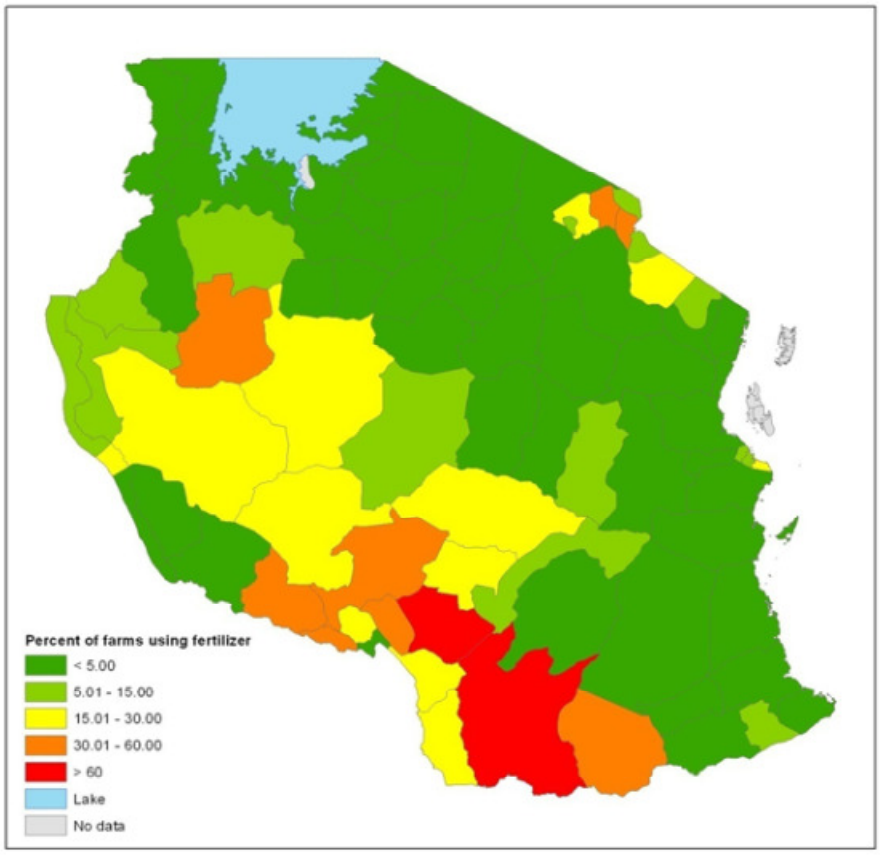
Sadly, Tanzania suffers from rampant corruption throughout the agribusiness industry. At a national level, in a survey conducted by the Kenyan Division of Transparency International (July 2009), the Tanzanian police were ranked as the second most corrupt institution in East Africa, with a 62.2 percent bribery rate. The Tanzanian Judiciary achieved 61.5 percent bribery rating in the same study. In recent years, many in the donor community have threatened to withhold funding if the corruption issue is not addressed. Two donors eventually pulled out, resulting in US $80,000,000 less in 2011 than in 2010.

A full, Tanzanian government report, which paints a rather ugly picture of the level of corruption in the country, is available at www.pccb.go.tz, under the title of "National Governance & Corruption Survey".

The Corruption Perceptions Index ranks Tanzania 100th out of 182 countries.

INPUT CONSTRAINTS

SEEDS & FERTILIZER



Source: Tanzania Agricultural Sample Census 2003

In Tanzania, there are currently eleven private importers involved in the distribution of subsidized fertilizer to the regions. These are Premium Agro-Chem, Export Trading Company, Shivlal Tanks (STACO), DRTC, Alliance One, Mohamed Enterprises Limited, TFC, Tanzania Leaf Tobacco Company Limited, Nutricare Limited, Nyiombo Investments and Chapa Meli Limited.[6]

IRRIGATION

In Tanzania, the sale of agricultural commodities accounts for over 70 percent of the rural income, and over 50 percent of Tanzanian farms are small-holder plots of less than one hectare. To this end, almost all of Tanzanian agriculture depends on rainfall, resulting in extremely low and fluctuating yields from season to season. These inefficiencies, results from the lack of standardized irrigation, leave many specialty food producers unable to predict the quantities and qualities of raw materials.

[6] Tanzanian government circular – MAFC (23 August 2006)

ETHIOPIA

Map supplied from www.lonelyplanet.com

INTRODUCTION

Ethiopia is a country rich in agriculture, due mainly to its unique geography and climate regions, as well as its strong culinary culture. As one of the few African countries with no significant oil or mineral resources, Ethiopia is highly dependent on the export of agricultural products. Agriculture accounts for 46.3 percent of the GDP, 83.9 percent of exports and over 80 percent of the labor force works in agriculture. Coffee is the leading export commodity, though recurring droughts, political instability and Ethiopia's involvement in the Eritrean war (1998-2000) have hindered coffee production. Still, coffee exports account for nearly 32 percent of Ethiopia's foreign exchange earnings. Other noteworthy agricultural exports include finished leather goods, pulses, oil seeds and chat (a leafy narcotic traditionally chewed in Ethiopia). Gold is also a significant export, earning 17 percent of export revenue in 2010-2011.

Geographically, The Republic of Ethiopia a land-locked country, approximately twice the size of France, and shares borders with Kenya, Djibouti, Eritrea, Sudan and Somalia.

Ethiopia has two significant rainy seasons (Meher – from mid-June until mid-September) and (Belg – February until March). The remainder of the year is mostly dry in almost all regions of the country.

As mentioned, coffee exports account for approximately 32 percent of the foreign exchange in Ethiopia, and 2005 estimates note that almost 25 percent of the working population working in the coffee-commodity sector. Coffee exports from Ethiopia are rarely value-added, as most beans are shipped green (unroasted) and in bulk. All high-quality coffee beans are exported, leaving the much lower quality beans for domestic processors.

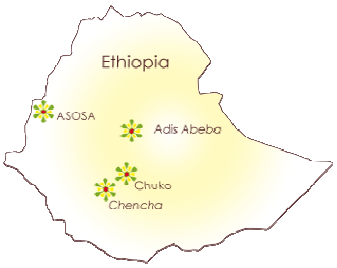
Across all agricultural products, Germany is the leading export partner with Ethiopia, accounting for more than 11 percent of the total export volume. Other significant partners include Saudi Arabia, Netherlands, United States, Switzerland and Italy.[7] Ethiopia is also the tenth largest supplier of livestock in the world (and the largest in Africa), with the majority of that commodity being exported into neighboring countries. Ethiopia is also Africa's second largest producer of maize. In most of Ethiopia, agricultural production is almost always done at the subsistence level.

Until the 1974 revolution, Ethiopia had a complex land-tenure system in place. Today, land ownership remains a challenge which hampers, amongst other things, an entrepreneur's ability to utilize land as collateral for financing.

The World Bank "Ease of Doing Business Index" ranks Ethiopia 111th out of 183 countries in 2012.

CASE STUDY – ECOPIA (ECOLOGICAL PRODUCTS OF ETHIOPIA)

ECOPIA (Ecological Products of Ethiopia) is a socially-responsible company based in Addis Ababa. Founded in 2007 by Dr. Mitslal Kifeyesus Matschie, an Ethiopian entrepreneur who divides her time between Ethiopia and Germany, ECOPIA operates a low-level production facility at each of their four, regional "incubator" sites across Ethiopia.



Locations of ECOPIA Out-grower program (www.ecopia.de)

They produce a number of value-added food products, including jams (mango, pineapple, strawberry, mixed-fruits), oils (sesame, sunflower, groundnut, wine (mango, cactus, guava, pineapple, plum, hibiscus and chat), juices (apple, mango, pineapple and plum), syrups (apple, mango, pineapple, plum and strawberry) and teas (tossegn, lemongrass, hibiscus flower, pineapple and mixed-fruit). They also produce a range of all-natural cosmetics, including soaps (eucalyptus, lemongrass, coffee, camel milk and frankincense), beauty creams (meskel flower and eucalyptus), and massage oils (mint, lavender, quesil).

Despite marketing themselves as an "organic" company, none of ECOPIA's products are certified "organic" by any recognized institution.

[7] Economy Watch Content, 31 March 2010

ECOPIA is an example of a well-designed food producing company in Ethiopia. They have a diverse out-grower scheme that can have an extremely positive effect on the rural communities they operate in. Additionally, they do produce a high-quality range of products and have an extremely marketable storyline behind their brand.

ECOPIA suffers from a lack of market information, with no general direction regarding where market opportunities lie and how to access them. Second, their logistical operations are completely mismanaged. Packaging is imported from Germany to Addis Ababa, and is then dispersed to the regional production facilities. From there, the jars are filled with product, and shipped back to Addis for labeling and sales. Breaking down their pricing structure, it is evident that the cost of packaging, including shipping and handling, is well over 100 percent of the final cost. This excessive costing structure prices ECOPIA out of all but the most niche markets, and limits opportunities for growth.

ECOPIA is a fine example of a quality company who, because of the lack of market information, viable packaging options and a clear understanding of distribution capabilities, struggles to find its place in the global specialty food industry.

CASE STUDY – TUTU HONEY

Tutu Honey is a medium-sized honey producing company (DBA "Tutu & Her Family Commercial, PLC) based in Addis Ababa. They support an extensive out-grower network of honey producers in the Kaffa region of Ethiopia – an area in the southwest of the country where low pollution and tropical rainforest vegetation gives the honey a fruity and fresh taste. They operate a mini-incubator program which includes a training facility, which includes a self-supported micro-finance program, modern hives, and collection sites. Tutu honey actively

works with four regional associations, however, due to corruption and inefficiencies, they refuse to work with any of the regional honey cooperatives.

Currently their honey products are available in the domestic market (limited, direct distribution within Addis Ababa) and in the export markets of Norway (shipped in bulk to support the Honningcentralen brand). Currently, they collect and process approximately 100 tons of honey annually. Additionally, Tutu Honey also produces other value-added derivative products, including beeswax candles and beauty products.

Roger Hem, general manager of Honningcentralen, states that "this is purely business for us, but if we succeed, this will provide fertile ground for Ethiopia to be able to export honey also to other developed countries". As of May, 2012, Tutu Honey was actively pursuing sales leads in the Middle East – Dubai, in particular.

During an interview with Marketing Manager, Eyob Assefa, Mr. Assefa indicated a number of key challenges, including the supply of raw materials from their out-grower schemes, high transportation costs and the lack of information about domestic and international market access. They are extremely interested in developing their own brand.

POST-HARVEST CONSTRAINTS

PACKAGING

Packaging that meets international standards in Ethiopia is a rarity. Most packaging material is imported from the European Union, and then is subject to a rather high VAT rate of approximately 10 percent. Domestically produced packaging material simply does not meet international standards, so the few Ethiopian companies who export finished products are often left with no cost-effective options other than shipping in bulk and utilizing a co-packer in a

target market. Ironically, importing packaging materials from the EU is less time consuming than from Kenya.

There is only one PET producer in Ethiopia, and according to Sales & Marketing Manager Teshome Kifle, they are producing 100 percent capacity. Glass packaging is produced, but apparently only for the large breweries and soda companies. Gaining access to these companies is impossible.

The lack of quality, cost-effective packaging options is a definite hindrance to specialty food manufacturers in Ethiopia.

COLD STORAGE

Another major constraint for specialty food manufacturers in Ethiopia is the availability of cold storage facilities. Several foreign companies have offices (consulting) in Ethiopia and are able to install cold storage facilities and provide maintenance and repair services. There are two privately owned cold stores in Ethiopia, namely the Ethio-Flora and Tippu Valley cold stores in Ziway. In the public sector, Et-Fruit and the two state enterprises have cold store operations. The stores are not designed to rapidly reduce field heat and are not of a sufficiently high standard. Additionally, Et-Fruit has eighteen refrigerated containers for domestic, ground transportation (for their operations and partner organizations).

There is one private cold store at Bole airport. The facility has three separately controlled chill chambers plus a larger chilled handling area and a non-chilled dry goods area. The store was built and equipped to a very high standard and is customs bonded. In addition, Bahir Dar and Makelle are preparing cold store facilities at their respective airports. The regional governments project that in time direct flights will supply the European and Middle Eastern markets.

Cold storage is out of reach of many, if not most SME specialty food manufacturers. The high cost of operations, due to limited availability and the cost of electricity and fuel, is a major stumbling block for many processors in need of such critical resources.

PHYTO-SANITARY INSPECTIONS & CUSTOM CONTROLS

In total there are five quarantine stations, at Bole International Airport (near Addis Ababa), Dire Dawa, Moyale, Nazaret and in Metema. The Ethiopian phyto-sanitary services are currently under restructuring and capacity building is taking place.

The quarantine regulation in Ethiopia stipulates that plants and plant products exported from the country have to be inspected and accompanied by a phyto-sanitary certificate. The production of horticultural products is currently inspected during the growing stage. Visiting all export growers on a regular basis to ensure compliance with international phyto-sanitary standards and regulations is occasionally taking place by the Plant Quarantine Team of the Animal and Plant Health Regulatory Department (APHRD). Checks are done at random at the

farms and the farmer is doing the inspection themselves, based on information received from the Ministry of Agriculture. Each inspection visit is concluded with an inspection report.

Most exporters employ handling officers who ensure that the export consignments are send with the proper documentation, airway bill and phyto-sanitary certificate. The phyto-sanitary certificate is prepared on the basis of specifications of the consignment phoned to the handling officer from the grower's production place. Customs control can be done at the farm by customs officers. The container can therefore be sealed at the farm. Ethiopia doesn't levy export tax for horticultural products.

Digitization of the phyto-sanitary procedures is being discussed at the moment and the Dutch CLIENT package has been proposed as the preferred system.

PHYSICAL INFRASTRUCTURE CONSTRAINTS

TRANSPORTATION

Bole Airport in Addis Ababa is the only international airport in Ethiopia. Other regional airports, including Arba Minch, Makelle, Gonder, Dire Dawa and Bahir Dar have infrastructure capable of handling international (or, at least regional) flights, but as of yet, no international flights use these destinations. In Ethiopia the prices of air freight to Europe are more or less comparable to Kenya, ranging from US $1.75 to US $2.05 per KG. Air freight rates to the Middle East average between US $0.65 and US $0.75 per KG. Prices for to the Middle East are considered attractive, mainly due to overcapacity.

As a land-locked country, Ethiopia's only choice for sea freight is through the port of Djibouti, approximately 900 kilometers from Addis Ababa. As mentioned, road transportation costs are high, and limited rail options are available. In March of 2007, shipping giant Maersk opened an office in Addis Ababa, and provides consolidation services to Djibouti and on to Salalah in Oman. Because Djibouti port is does not offer transshipment services, shipping times can be quite long. Shipping refrigerated ("reefer") containers is quite difficult, for specialty food companies who require them. Reefers are few and far between, and the cost of shipping a reefer to Djibouti is almost the same cost as shipping via air freight.

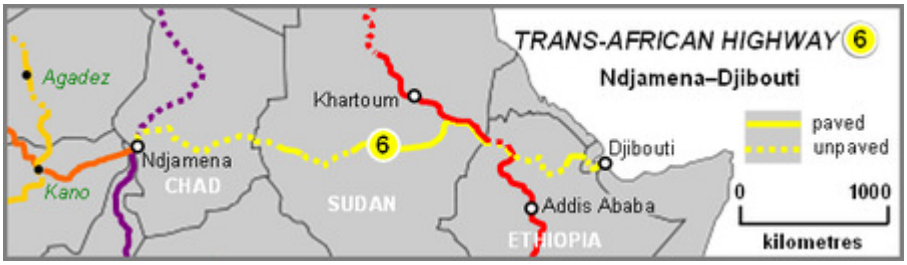
ROAD INFRASTRUCTURE

The Ethiopian Road Sector Development Program is the primary public-sector program responsible for the development of Ethiopia's internal roads system. The efforts of this program produced a substantial increase in the percentage of Ethiopian highways deemed "good quality"; from 14 percent in 1995 to 89 percent in 2009.[8] Despite this, minor and feeder roads connecting the major roads are in need of investment and improvement. As many specialty food producers source inputs and raw materials from outlying areas, this is of critical importance.

[8] Barry Malone (28 October 2009), "Ethiopia Earmarks Almost $1 Billion for Roads", www.reuters.com

Ethiopia also has two major trade corridors: Ndjamena-Djibouti going West to East, and the Cairo-Cape Town going North to South. Despite congestion into the port of Djibouti, this corridor functions quite well.

High fuel prices, high transportation costs and well-documented bribes along border areas continue to plague road transportation in Ethiopia for many specialty food processors.



MARKET INFRASTRUCTURE

The domestic food market is Ethiopia is extremely fragmented and informal. Unlike most of their East African neighbors, Ethiopia has no national or international supermarket chains, making national distribution a time-consuming process of dealing with thousands of independently-owned retail outlets. While Addis Ababa possesses 80 percent of the country's purchasing power, solid market opportunities exist in regional cities, including Nazareth, Bahir Dar, Awassa and others.

Much of the specialty food distribution that does happen, informally, happens through the "Merkato" system. The main "Merkato" is located in Addis Ababa, in the Addis Ketema district, and is noted for being the largest open market in Africa and Ethiopia's largest employer. The Addis Merkato is a trade and retail center, with over 13,000 employees working for 7,100 business entities (including 2,500 retail shops).

SKILLS & INFORMATION CONSTRAINTS

MARKET INFORMATION

Accurate market information, whether for domestic markets or international opportunities, is difficult to locate for small and medium-sized food processing enterprises in Ethiopia.

The Ethiopian Chamber of Commerce is one of the many public entities who are charged with assisting specialty food manufacturers in developing the domestic market. During our interview with Secretary General Gashaw Debebe, Mr. Debebe indicated that there was a need to "improve the leadership and knowledge base of the Chamber's management", and that they would be launching such a training program in the near future.

The Ethiopian Export Promotion Agency (EEPA) is a government institution charged with promoting the countries' exports. They do run a website entitled "Market Information", but it is blank.

Navigating both the domestic and international markets is quite difficult for many specialty food producers in Ethiopia, partly due to the lack of market information available to them.

BUSINESS SKILLS

In depth knowledge and understanding about all aspects of the supply chain remain low in Ethiopia. Ethiopia does not have an entrepreneur culture, hence it is rare to find an individual interested in starting their own food processing company. During an interview with Professor of Food Sciences at The University of Addis Ababa, it was clearly pointed out that most students graduate with the skills necessary for "entry to mid-level positions within the sugar industry or other commercial farming". Food processing at the "specialty", SME level, is hardly encouraged.

The Dean of Students from the University of Bahir Dar points out that "entrepreneurialism is not part of the Ethiopian culture," citing that most graduates look to obtain positions in government following graduation.

Generally, specialty food producers in Ethiopia lack basic business skills, sales, and marketing and product development skills. While there are a number of BDS providers in Ethiopia, few processors have access to such programs.

INSTITUTIONAL FRAMEWORK CONSTRAINTS

Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	99	91	-8
Dealing with Construction Permits	56	57	1
Getting Electricity	93	84	-9
Registering Property	113	105	-8
Getting Credit	150	130	-20
Protecting Investors	122	120	-2
Paying Taxes	40	35	-5
Trading Across Borders	157	156	-1
Enforcing Contracts	57	56	-1
Resolving Insolvency	89	87	-2

* World Bank Doing Business in Ethiopia 2012

CAPITAL CONSTRAINTS

The Ethiopian Development Bank (EDB) is the key institution financing the expansion of the floriculture sector. The loans have favorable conditions compared to the general commercial loans, with a grace period and at relatively low interest rates. The debt/equity ratio for these loans is 70:30 for start ups and 60:40 for expansion of existing projects. This loan facility has been instrumental in the quick development of the agribusiness sector.

Regulation of the banking systems in Ethiopia is also a major constraint for agribusiness entrepreneurs. There is no "free" exchange of foreign exchange, making international financial transactions costly and difficult. Domestic banks in Ethiopia have historically shown hesitation in investing in the agribusiness sector, mostly due to a lack of understanding about the industry and the perceived high risks involved with agricultural investment. The fact that foreign backs are not permitted to operate in Ethiopia is also a constraint to specialty food manufacturers looking to raise capital.

Ethiopia is home to two important, informal financial institutions, known as the "Iqqub" and the "Iddir". These are common in village areas, and do replace the capital capabilities of micro-finance organizations. However, the processor utilizing these systems remains well outside of the formal financial sector, and never does access the credit terms needed for growth and expansion.

Different financial institutions in Ethiopia provide short, medium and long-term development credits. The regulation of the banking system presents a major constraint. There is no free exchange of foreign exchange, which hampers international financial transactions. The lack of domestic and foreign finance was perceived as a constraint on the development of the sector. Domestic banks have shown a reluctance to invest in the sector, in part due to a lack of sector knowledge and the perceived high risks involved, and foreign banks are currently not permitted to operate in Ethiopia. This, combined with the land tenure system which prohibits the use of land as collateral, is a major hindrance to specialty food producers.

ASSOCIATIONS

Ethiopia has more non-governmental organizations than the rest of Africa put together, practically. There are virtually NGO programs doing everything imaginable in Ethiopia, often with considerable overlap.

One of the most important organizations in Ethiopia for specialty food processors, regarding inputs and policy, is the Ethiopian Agricultural Transformation Agency. They are charges with addressing systemic bottlenecks in the agriculture sector by "supporting and enhancing the capacity of the Ministry of Agriculture and other public, private and non-governmental implementing partners".

The Ethiopian Association of Organic Agriculture (EAOA) was launched in November of 2008, with a mission to promote a better income for farmers and natural resources conservation. CEO Tesfaye Tekle-Haimanot stated that EAOA was started by "co-operative private companies, exporters and NGO's".

As in most of East Africa, agribusiness cooperatives are of critical importance to the development of the inputs and raw crops utilized by specialty food processors. Also, as in most of East Africa, the vast majority of agribusiness cooperatives are failing institutions plagued with corruption and mismanagement. Though greatly improved in recent years, Ethiopia's agribusiness cooperatives still have a long way to go to live up to their potential of leading the industry in inputs, bargaining and linkages.

Starting a business in Ethiopia, as highlighted in the introduction, is difficult, and to date, there is no one association in Ethiopia offering a one-stop-shop. While the procedures to legally start a company in Ethiopia are reasonably manageable, entrepreneurs are still required to deposit a minimum of 1,083 percent of income, per capita, into a bank to obtain a business registration number. This is a substantial amount, particularly for most small and medium-sized specialty food producing companies. Additionally, while The World Bank, the "time to enforce a contract" in Ethiopia is alarmingly high, at 690 days. Reports from various interviews list "contract enforcement" and the "lack of intellectual property enforcement" as major obstacles to business development in Ethiopia.

TRADERS

When attempting to penetrate the domestic market, Ethiopian specialty food manufacturers must navigate through a difficult and extremely informal network of brokers, traders, individual distributors (known locally as "Isuzus" – for the type of trucks they drive). They must learn to embrace the "merkado" system; the informal distribution system by which most products are distributed throughout the country.

Nationally, only Et-Fruit (a publicly held company) has national distribution.

The informal, domestic market in Ethiopia is layered with a host of traders, brokers, wholesales, re-sellers, distributors and retailers, most of which is either a direct to retailer relationship or utilizing the merkato system.

CORRUPTION

In a 2009 report by Global Financial Integrity stated that Ethiopia (with a per capita GDP of just US $365) lost US $11,700,000,000 to illicit financial outflows between 2000 and 2009. More concerning is the reports data that indicates this flow of corruption is on the rise. In 2009, illicit money leaving the economy totaled US $3,260,000,000, which was double the amount in each of the two previous years.

As one of the poorest countries on Earth, Ethiopia simply cannot accept this (or any) level of corruption! It is also worth mentioning that in 2008, Ethiopia received over US $829,000,000 in official development assistance from the donor community. Corruption is a major problem in Ethiopia, and it puts a major strain on all food processing companies.

The Corruption Perceptions Index ranks Ethiopia 120th out of 182 countries.

INPUT CONSTRAINTS

SEEDS & FERTILIZER

Quality inputs remain a critical challenge for many agribusiness entrepreneurs in Ethiopia. Currently, there are only a handful of major agricultural input suppliers, including the

government-owned Agricultural Inputs Supply Enterprise (AISCE) and Ethiopian Seed Enterprise (ESE), two regional government-affiliated companies and nine cooperative unions.

The Central Statistics Agency (CSA) states that while the total quantity of improved seed supplied nationally has been increasing since 1996, farmer use of improved seed covered an average of only 4.7 percent of cropped land in 2008. Today, most Ethiopian farmers still rely on farmer-to-farmer exchanges or saved seed (Belay, 2004). Formally, the Ethiopian Seed Enterprise (ESE) is responsible for the management and dissemination of agricultural seed.

Regarding fertilizer, though the private sector handled nearly one third of the annual volume of fertilizer imports in 1995, its role has gradually diminished and, currently, the entire fertilizer importation and distribution is handled by the government and the farmers' cooperative unions. The Ethiopian Seed Enterprise (ESE), Ethiopian Institute of Agricultural Research (EIAR) and Ministry of Agriculture and Rural Development all share responsibilities in the national seed program. Additionally, there are regional "woreda" (district offices) and extension agents servicing the industry. According to the 2007 World Food Program (WFP) Food Assessment Mission, the farmers' cooperative unions controlled about 56 percent of the total fertilizer handled in 2005-2006, while AISCA and two government affiliates (Ambassel and Wondo) had 23 percent and 21 percent shares, respectively. Similarly, the Ethiopian Seed Enterprise (ESE) was the sole supplier of nearly 9,000 metric tons of improved wheat seeds distributed in 2006-2007.

Agricultural inputs are, in general, distributed on credit to small-holder farmers through a credit-guarantee scheme supported by the regional governments. These credit guarantees are predominantly obtained from the Commercial Bank of Ethiopia.

The quality of inputs supplied through these public-sector initiatives is generally low, thus having a substantial, negative impact on the specialty food industry. Low quality seeds and fertilizers have resulted in lower yields and productivity across the value chains dominant in Ethiopia.

IRRIGATION

Much of Ethiopian agriculture is rain-fed. The Ministry of Agriculture and Rural Development, along with the Ministry of Water Resources are responsible for developing irrigation schemes at the national level. Ethiopia is fortunate to have a substantial amount of water resources, though little of it is developed to capacity. Ethiopia possesses twelve major river basins, which form four major drainage systems (The Nile Basin; The Rift Valley; The Shebelli-Juba Basin; and The North-East Coast).

Both irrigated and rain-fed agriculture is important in the Ethiopian economy. Virtually all food crops in Ethiopia come from rain-fed agriculture with the irrigation sub-sector accounting for only about 3 percent of the food crops. Export crops such as coffee, oil seed and pulses are also mostly rain-fed, but industrial crops such as sugar cane, cotton and fruit are irrigated. Other important irrigated crops include vegetables and fruit trees in medium- and large-scale schemes and maize, wheat, vegetables, potatoes, sweet potatoes and bananas in small-scale schemes. There is a marked value-added in irrigated agriculture. A case study carried out in

2001 estimated that average yields of cereals under irrigation and rain-fed conditions are 1.75 and 1.15 tons per hectare, respectively. The same study indicated that production costs per HA were US $90 for cereals, US $60 for pulses and US$290 for vegetables, while the corresponding gross incomes per HA were US $345, US $215 and US $1,870.

In Ethiopia, the major growing seasons are directly related to annual rainfall patterns. Most of the rivers in Ethiopia are seasonal, and about 70 percent of the total runoff is obtained during the period of June thru August.

Irrigation has been utilized in Ethiopia for thousands of years, though modern irrigation techniques only appeared with commercial sugar estate farming in the 1950's. Today, according to the FAO, there are four main categories of irrigation schemes in Ethiopia. They are:

- Traditional Irrigation Schemes: These schemes are constructed under self-help programs carried out by farmers on their own initiative and vary from less than 1 HA to 100 HA. The total irrigated land is estimated to be about 138,000 HA and about 572,000 farmers involved. Traditional irrigation is very common in peri-urban areas, particularly in Addis Ababa and Bahir Dar, for the production of vegetables for the local market. The major drawback of this type of irrigation scheme is related to unstable head works and faulty systems of irrigation stemming from a lack of technology and knowledge.
- Modern Small-Scale Irrigation Schemes: these schemes use technologies for irrigating up to 200 HA and are constructed by the government and/or NGO's with farmer participation. They are generally based on direct river diversions, but they also involve micro-dams for storage. In 2002, the total land utilizing this system was approximately 48,300 HA and involving 74,100 farmers.
- Modern Private Irrigation Schemes: Private investment in irrigation has recently re-emerged with the adoption of a market-based economy policy in the early 1980's. Virtually all irrigated state farms were privately owned farms until nationalization of private property in the mid-1970's. At the end of 2000, private investors had developed about 5,500 HA of irrigated land, mostly in the Southern Regions.
- Public Irrigation Schemes: These schemes comprise of medium and large scale irrigation schemes with areas of 200 to 3,000 HA and above 3,000 HA, respectively and have a total estimated area of about 97,700 HA. They are constructed, owned and operated by public enterprises. These schemes are concentrated along the Awash River and were constructed in the 1960's and 70's. No such schemes have been developed in the last 8 years.

In conclusion, despite Ethiopia's wealth of water resources, most producers struggle to gain access to irrigation systems, which means that specialty food producers must depend on raw materials which are rain-fed, less reliable and of lower quality.

CONCLUSIONS

The goal of this paper is to highlight issues and induce discussions on how to understand the supply-side issues faced by food processing companies in East Africa, and to offer suggestions

on a clear path forward. In much of East Africa, agribusiness is still in its infancy, and much work is needed to improve the situation. Additionally, entrepreneurship is also in its infancy, and in many cases, it is a culturally foreign concept. Entrepreneurship is a fundamental basis of the specialty food industry, and its absence can be seen in the quantity and quality of the products being produced. The following points summarize constraints based on the findings of this study:

- Access to land and work space: land ownership is a major constraint for food producing entrepreneurs in most of East Africa.
- Subjective tax systems: VAT systems that create an unfair and restrictive business environment for the supply chain.
- Access to adequate financial capital: a lack of capital, due to high interest rates and little interest from banks in the "risky" agribusiness industry.
- Access to markets: specialty food entrepreneurs often do not have information about opportunities, standards and logistics to penetrate domestic, regional or international markets.
- Improved quality of inputs and post-harvest handling: poor quality inputs, storage facilities and transportation are often to blame for low-quality finished products.
- Standardized and coordinated phytosanitary and customs programs: the lack of a streamlined process from production to markets limits exports, even within the region.
- Access to private sector organizations and enterprise linkages: apart from the occasional, poorly attended trade show, few organizations focus on business to business linkages for sales or supply.
- Clear national policy to enhance the private sector: many countries in East Africa do not create a business enabling environment for entrepreneurship to thrive.
- Improve entrepreneurial, leadership and managerial skills: education is perhaps the single most important factor when developing a sustainable growth program in entrepreneurship and the creative, scientific and business aspects of the food industry.
- Address social and cultural constraints: relevant discussions are needed to address the lack of an enterprising culture in each country. The considerable lack of entrepreneurship, combined with excessive corruption, has constrained much private sector development.
- Coordination amongst Business Development Service Providers: a coordinated effort is needed to seamlessly link multiple donor and/or governmental programs offering complimentary services.
- Inadequate information about standards and procedures: gathering information, even for local markets, is difficult.
- Overall mistrust and a lack of coordination between the governments, donors, informal sector and private sector players.

DEFINITIONS

Ad Vlorem Duty: This is a duty levied according to the value of the goods. It is usually expressed as a percentage of the value (e.g. 20 percent of CIF value.)

African Growth and Opportunity Act (AGOA): Contained in the USA Trade and Development Act of 2000, this is a nonreciprocal trade agreement that aims to promote trade and economic cooperation between the United States and eligible sub-Saharan countries. Essentially all products of eligible countries have quota free and duty free access to the United States market.

Airway Bill: A document evidencing a contract of carriage between the shipper and airline for carriage of goods. It provides evidence of a contract of carriage, proof of receipt of goods by the carrier, customs declaration and a waybill. A waybill lists the goods being carried, shows the point of origin, destination, consignor, consignee and transportation charges.

Anti-dumping Duty: A specific duty levied for the purposes of offsetting the effects of dumping. Goods are regarded as having been dumped if the export price of the goods exported to certain countries is less than the comparable price, in the ordinary course of trade, for the product when destined for consumption in the exporting country and if the importation of the goods causes injury to or retardation of a domestic industry.

Bill of Lading: This is a document which serves as evidence of a contract of carriage between the carrier and the shipper. It includes the name of the shipper, the ship's name, a full description of the cargo, the ports of embarkation and of destination.

Bonded Warehouse: Any warehouse or other place licensed by the government for the deposit of dutiable goods on which import duty has not been paid and which have been entered to be warehoused.

Carriage Coastwise: Conveying goods by sea or air from any part of a country to another part of the country.

Certificate of Origin: This is a document indicating the country of origin of goods being imported. It is usually issued by exporting countries, official authorities or by other agencies designated by the governments where the goods originate from. It is used to ensure that goods originating in certain countries get the preferential treatment that they are entitled to.

Commercial Attaché: A representative of a government, located in a foreign country, for the purposes of promoting the foreign trade of his/her country.

Common External Tariff (CET): An identical rate of tariff imposed on goods imported from countries outside a regional trade agreement area (e.g. EAC or COMESA).

Common Market: Integration of the markets of the partner states in a regional trade agreement (e.g. EAC, COMESA, into a single market in which there is free movement of capital, labor, goods and services).

Community Tariff Treatment: A five year interim tariff imposed on specific goods originating from the Republic of Kenya to the Republic of Uganda, and from the Republic of Kenya to the United Republic of Tanzania under the principle of asymmetry.

Cost, Insurance and Freight (CIF): The seller pays the costs and freight necessary to bring the goods to the named port of destination as well as procures marine insurance against the buyer's risk of loss or damage to the goods during carriage. The seller contracts for insurance and pays the insurance premium. The costs are then passed on to the buyer (see FOB).

Countervailing Duty: A specific duty levied for the purposes of offsetting a subsidy bestowed directly or indirectly upon the manufacture, production or export of a product.

Customs Bond: A customs bond is a guarantee that the importer will faithfully abide by all laws and regulations governing the importation of goods into a country. The purpose of a bond is to guarantee that all customs duties, customs penalties, and other charges assessed by Customs will be properly paid and that all trade procedures will be followed.

Customs Duties: These are taxes levied upon goods on their entry into a country (import duties) or on their exit from a country (export duties).

Customs Entry: This is the documentation required to be filed with the appropriate customs officer to secure the release of imported goods from Customs' custody.

Customs Value: The value of goods for the purposes of levying ad valorem duties of customs.

Destination Inspection: Inspection of imported goods by regulatory authorities at the point of clearance. The inspection is done to determine the quality, quantity, value, duties and taxes applicable. It could also mean inspection by the buyer or his agents of the goods on receipt at the destination to assess whether they conform to the specifications laid down in the purchase contract.

Duty Drawback: This is a refund of all or part of any import duty paid in respect of goods exported or used in a manner or for a purpose prescribed as a condition for granting the refund.

East African Customs Union Protocol: Officially titled the Protocol on the Establishment of the East African Customs Union. This is the protocol establishing the East African Community Customs Union within which non-tariff barriers are eliminated, a common external tariff in respect of all goods imported into the Community is applied and customs duties are eliminated except for some specified circumstances.

East African Customs Management Act: The Act applying to the East African Community partner states regarding the Customs Union.

East African Community (EAC): The East African Community established by the EAC Treaty of 1999 that is currently made up of the Republic of Uganda, the Republic of Kenya and the United Republic of Tanzania.

Excise Duty: A non-discriminative duty imposed by a government on locally produced or similar imported goods. Goods subject to excise duty include wines and spirits, beer, bottled water, soft drinks and cigarettes.

Exemption from Duty: Duty is not charged on the goods specified when imported or purchased before clearance through customs.

Export Processing Zone (EPZ): A designated part of Customs territory where any goods introduced are generally regarded, in so far as import duties and taxes are concerned, as being outside Customs territory but are restricted by controlled access.

Free On Board (FOB): The seller fulfils his obligation to deliver when the goods have passed over the ship's rail at the named port of shipment. The buyer therefore has to bear all cost and risks of loss or damage to the goods from that point.

Free Port: A port at which goods can enter free of customs; the goods are usually for re-export.

Identical Goods: Goods which are the same in all respects, including physical characteristics, quality and reputation.

Import Declaration Form (IDF): This is a form that is prepared by the clearing agent and is required for all imports. It contains a summary of the information contained in the supporting documentation such as the invoice, the packing list, certificate of origin, the seller's and importer's names, addresses and related details.

Letter of Credit (LC): A specialized instrument of international trade designed to facilitate trade between exporters and importers. It is issued by a bank to the seller at the request of a buyer. It guarantees payment to the seller if the terms and condition specified in the LC are fulfilled. Letters of Credit are uncommon in the European Union and United States.

Manifest: This is a detailed list of cargo being carried on board by a carrier such as aircraft or ship, it includes quantity, identifying marks, consignor and consignee of each item.

Manufacturing Under Bond: This is a facility extended to manufacturers to import plant, machinery, equipment and raw materials tax free, for exclusive use in the manufacture of goods for export.

Most Favored Nation (MFN): A trade policy commitment on the part of one nation to extend to another nation tariff rates as low as applies to any other "most favored nations," and to treat imports from that nation without discrimination. Thus if a WTO member country grants another country any tariff or benefit on any product it must unconditionally extend this benefit to the like products of other countries. The principle is therefore that member countries should not discriminate among countries, and not treat a country less favorably than another in all matters connected with foreign trade in goods. There are exceptions to the MFN

rule for example, preferential treatment under regional trade agreements such as COMESA and EAC.

Packing List: This is a statement listing in detail, the contents of a particular package. It should show marks and number of packages, gross and net weights, measurements, and description of contents of each package.

Partner States: The Republic of Uganda, the Republic of Kenya and the United Republic of Tanzania and any other country granted membership to the East African Community.

Phytosanitary Inspection: Inspection by an agency of a national government to certify that a shipment is free from harmful pests and plant diseases.

Preferential Tariff Treatment: This is a situation where a country gives preferential treatment to imports from some countries by imposing lower rates of duty on goods imported from these countries.

Pre-Shipment Inspection: Inspection of goods before they leave the country of origin. Pre-shipment inspection is done to determine the quality, quantity, value, duties and taxes applicable. A report or certificate is issued which should accompany the import clearance documents.

Principle of Asymmetry: The principle which addresses variances in the implementation of measures in an economic integration process for purposes of achieving a common objective.

Prohibited Goods: Goods whose importation, exportation, or carriage coastwise is prohibited under the provisions of a country's laws.

Proper Officer: Any officer whose right or duty it is to require the performance of, or to perform, the act referred to.

Rate of Exchange: The price at which the currency of one country can be exchanged for the currency of another country.

Refund: The return or repayment of duties already collected. This could be the return of overpaid charges, for example import or export duty paid in error. The government may also grant a refund of import duty paid in respect of goods which have been damaged or destroyed during the voyage or while subject to Customs control.

Remission: The waiver of duty or refraining from exacting of duty.

Restricted Goods: Goods whose importation, exportation or carriage coastwise is prohibited, save in accordance with conditions regulating it, or goods whose importation, exportation or carriage coastwise is in any way regulated by or under any written law of each country.

Rules of Origin: These are rules which set the criteria for determining the origin of a product. They are used to differentiate products for preferential or normal treatment. For example, a product which is deemed to originate from a certain country may be eligible for preferential treatment while the same product from a different country is not granted the same treatment.

Similar Goods: Goods which are not alike in all respects but have characteristics and like component materials which enable them to perform the same functions and to be commercially interchangeable.

Standard: A precise and authoritative statement of the criteria necessary to ensure that a material, product or procedure is fit for the purpose for which it is intended. Standards typically fall into six categories, namely, glossaries or definitions of terminology, dimensional standards, performance standards, standard methods of test, codes of practice and measurement standards. Standards serve as guides for production of goods and provision of services and provide a basis for trade transactions.

Subsidy: Assistance by a government or public body in the production, manufacture, or export of specific goods through direct payments such as grants, loans or measures with equivalent effect such as fiscal incentives (e.g. tax credits).

Tax Remission for Exports: This is a scheme that offers incentives to exporters by remitting duty and VAT on raw materials used in the manufacture of goods for export. It also provides for tax remission on inputs to make goods defined as essential for the domestic market.

Test Report/Certificate: This is a document evidencing compliance with certain requirements or providing the results of tests or analyses done.

Trade/GDP Ratio: This is used as a measure of a country's openness or integration with the world economy. This is a measure of the ease with which goods and services, information, capital and other factors of production flow between the domestic economy and the rest of the world. A high trade-to-GDP ratio indicates greater integration.

Trade in Services: Trade in services is characterized by the movement of the factors of production, mainly, labor and capital. The services can be supplied in four ways, as described by the World Trade Organization's General Agreement on Trade in Services (GATS) namely: cross-border, consumption abroad, commercial presence and the movement of people.

Transaction Value: The price actually paid or payable for the goods when sold for export to the country of importation. This is adjusted by valuation factors, which are the various elements that must be taken into account in determining the customs value.

Value Added Tax (VAT): An indirect tax on consumption that is assessed on the increased value of goods at each discrete point in the chain of production and distribution, from the raw

material stage to final consumption. The tax on processors or merchants is levied on the amount by which they increase the value of items they purchase and resell.

World Trade Organization: This is the global trade organization which succeeded the General Agreement on Tariffs and Trade (GATT). Its main objective is to help trade flow smoothly, freely, fairly and predictably. It has a membership of nearly 150 members.

Zero Rate: Tariff rate at zero percent such as zero percent customs duty charged on the value of an imported product, this means no customs duty is charged.