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**Enhancing the  
Role of the  
Private Sector in  
Improving Food  
Security in the  
Greater Horn of  
Africa**

***Progress Report***

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# Enhancing the Role of the Private Sector in Improving Food Security in the Greater Horn of Africa

## TABLE OF CONTENTS

TABLE OF CONTENTS	1
FOREWORD	v
ACKNOWLEDGMENTS	vii
EXECUTIVE SUMMARY	ix
ABBREVIATIONS	xxi
<b>1 0 INTRODUCTION, METHODOLOGY, AND RATIONALE</b>	<b>1</b>
1 1 Introduction	1
1 4 Expanding Private Sector Involvement in Food Security	5
1 4 1 Definition of Food Security	5
1 4 2 Rationale for Private Sector/Agribusiness Involvement	6
1 4 3 Appropriate Role of The Public Sector in Food Security	9
1 4 4 Issues in the Transition to Increased Private Sector Involvement	10
<b>2 0 FINDINGS OVERVIEW AND REGIONAL IMPLICATIONS</b>	<b>13</b>
2 1 The Current Contribution of the Private Sector to Food Security	13
2 2 High-Priority Constraints to Food Security	15
2 3 Priority Constraints to Food Security the Private Sector Can Help Alleviate	16
2 4 Constraints on Private Sector Participation in Food Security Enhancement and Ways in Which These Can Be Overcome	17
2 5 How the Private Sector Can Help Alleviate Food Insecurity	19
2 6 Specific Opportunities for the Private Sector to Help Alleviate Food Insecurity	24
2 6 1 Uganda Privatizations	24
2 6 2 The Tanzania Fertilizer Company	24
2 6 3 Develop Strategies to Commercialize Technology	25
2 6 4 Develop a Comprehensive Private Sector Involvement Strategy	25
2 7 Companies and Individuals Interested in Participating in Food Security Enhancement	25
2 8 The ESABO Conference	26
2 9 Kenya Private Sector Core Group	27
2 10 Next Steps	28
<b>3 0 TANZANIA</b>	<b>31</b>
3 1 Current Contribution of the Private Sector to Food Security Enhancement	31
3 2 Prioritization of Constraints	31
3 2 1 Constraints to Increased Agricultural Production	31
3 2 2 Ranking of Constraints to the Development of the Private Sector by Size Firm	32

3 3 1	Access to Finance	33
3 3 2	Limited Business Management/Technical Skills	35
3 3 3	Shortage of Business Information	36
3 3 4	Unfavorable Regulatory Environment	36
3 4	Constraints to Private Sector Participation in Food Security Enhancement and How These Can Be Overcome	37
3 5	Food Security Enhancement Activities Involving the Private Sector	38
3 5 1	General Approaches	38
3 5 2	Specific Projects	38
3 5 2 1	Palm Oil Project	38
3 5 2 2	Institution Building for Private Sector Associations	39
3 5 2 3	Tanzania Fertilizer Company	39
3 6	The Tanzania Private Sector Core Team	40
4 0	KENYA	41
4 1	Current Contribution of the Private Sector	41
4 2	Prioritization of Food Security Constraint Factors	41
4 2 1	Constraints to Increased Agricultural Production	41
4 2 2	Constraints to the Development of the Private Sector	43
4 3	Priority Constraints That The Private Sector Can Help Alleviate	44
4 3 1	Examples of How the Private Sector Can Help Alleviate Priority Constraints	45
4 3 2	Stimulating the Development of SMEs	46
4 4	Constraints to Private Sector Participation in Food Security Enhancement and How These Can Be Overcome	47
4 5	Food Security Enhancement Projects Involving the Private Sector	47
4 5 1	Enterprise Development Program	47
4 5 2	APPROTEC Oilseed Press	50
4 5 3	KVM Vehicle	50
4 5 4	Other Specific Opportunities for Private Sector Involvement	50
4 6	Role of Women in Food Security Enhancement	54
4 6 1	Introduction	54
4 6 2	Enhancing Food Security Through Greater Involvement of Private Sector Women	55
4 6 3	The Private Sector and Women's Contribution to Food Security	68
4 7	The Kenya Private Sector Core Team	68
5 0	UGANDA	69
5 1	Introduction	69
5 2	The Current Contribution of the Private Sector	69
5 3	Prioritization of Food Security Constraints	70
5 3 1	Constraints To Increased Production	71
5 3 2	Constraints to the Development of the Private Sector	73
5 4	Priority Constraints That the Private Sector Can Help Alleviate	74
5 5	Constraints to Private Sector Participation in Food Security Enhancement and How They Can Be Overcome	74
5 6	How the Private Sector Can Help Alleviate Constraints and Specific Food Security Enhancement Projects Identified	75
5 6 1	How the Private Sector Can Help Alleviate Constraints	75

5 6 2	Specific Projects Identified in Discussion With the Private Sector	77
5 6 2 1	Produce Marketing Board	77
5 6 2 3	Uganda Maize Industries, Ltd	78
5 6 2 4	Kawanda Agricultural Research Institute	83
5 6 2 5	Food Science Department at Makerere University	83
5 6 2 6	Economic Policy Research Center at Makerere University	86
5 6 2 7	Dairy Corporation	86
5 7	The Uganda Private Sector Core Team	86
6 0	RECOMMENDATIONS	87
6 1	Private Sector Food Security Conference	87
6 2	IGAD	87
6 3	Most Likely Private Sector Participants	87
6 3	Next Steps	88
APPENDIX A		89
	Agenda for Meeting with Kenya Private Sector Core Group	91
	Proposed Members of the Tanzania Core Group	93
	Proposed Members of the Kenya Core Group	94
	Proposed Members of Uganda Core Group	95
APPENDIX B - Contacts		97
	Interviews Conducted in Tanzania	98
	Interviews Conducted in Uganda	100
	Interviews Conducted in Kenya	103
APPENDIX C - IGAD Speech		105
APPENDIX D - SEFARMS		115
APPENDIX E - Statement of Work		119



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## FOREWORD

## ACKNOWLEDGMENTS

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### **Summarized Findings of GHAI/PS Activity**

The following matrixes summarize the findings of this activity. The matrixes are structured with the key questions addressed by this activity as column headings and brief answers as column contents.

Priority Food Security Constraints	Priority Food Security Constraints the Private Sector Can Help Alleviate	Constraints to the Private Sector Helping Enhance Food Security
<b>Kenya</b>		
<ol style="list-style-type: none"> <li>1) Low utilization of inputs such as fertilizer, hybrid seeds, crop protection chemicals, etc</li> <li>2) Limited producer access to credit, especially small producers</li> <li>3) Very limited availability of rural transport for inputs supply &amp; output marketing</li> <li>4) Limited arable land versus population</li> <li>5) Limited dissemination of <u>highly applicable</u> agricultural &amp; agribusiness R&amp;D &amp; extension services</li> <li>6) A less than favorable business climate, e.g., uncertain NCPB privatization, frequent government intervention into commodity export markets &amp; inconsistent duties</li> <li>7) A less than favorable enabling environment, especially inadequate infrastructure such as rural roads &amp; electricity supply, telephones &amp; access to water</li> <li>8) Inadequate vertical &amp; horizontal linkages between agribusinesses</li> <li>9) Limited private sector grain storage capacity</li> <li>10) Inconsistent donor food aid related activities, &amp; lack of communication with the private sector regarding food aid</li> </ol>	<ol style="list-style-type: none"> <li>1) Poor inputs supply &amp; commodity output marketing</li> <li>2) Inadequate post-harvest handling &amp; key commodities storage &amp; distribution investment</li> <li>3) Poor agribusiness investment opportunity information &amp; analysis capabilities</li> <li>4) Inadequate private sector with public sector dialog on enabling environment enhancement &amp; commodity policy consistency improvement</li> <li>5) Inadequate producer &amp; small agribusiness firm access to credit</li> <li>6) Weak agribusiness investment conditions, especially poor infrastructure &amp; inconsistent government actions</li> </ol>	<ol style="list-style-type: none"> <li>1) The short term profit &amp; return on investment orientation of the private sector versus the non-profit &amp; longer term orientation of food security enhancement</li> <li>2) Agribusiness managers lack of focus on &amp; awareness of their possible role in food security enhancement, &amp; how it is related to their longer term interests</li> <li>3) Lack agribusiness, especially SMEs, access to credit to implement food security enhancing activities</li> <li>4) The limited resources (financial, time &amp; skills) of micro &amp; small agribusiness managers, who account for the largest number of agribusiness firms</li> </ol>

Ways the Private Sector Can Help Enhance Food Security	Specific Opportunities for Private Sector Involvement	Companies Interested in Involvement in Food Security Enhancement
<b>Kenya</b>		
<ol style="list-style-type: none"> <li>1) Increase <u>investments</u> in inputs supply &amp; outputs marketing, including storage &amp; distribution facilities</li> <li>2) Forward contracting with producers of food commodities by agribusinesses firms who also supply inputs, the value of which would be deducted from sales proceeds, this should also include improved technology dissemination</li> <li>3) Increased involvement in improved rural inputs supply &amp; output marketing</li> <li>4) Strengthen vertical &amp; horizontal linkages, private sector with public sector dialog &amp; market information &amp; technology dissemination via more effective agribusiness associations</li> <li>5) Increase emphasis on higher value processing to preserve crops, increase margins &amp; farm prices &amp; employ more labor</li> <li>6) Pursue large firms selectively offering comfort to lenders for loans to the large firm's suppliers</li> <li>7) Encourage more communication between agribusiness firms &amp; donors, especially regarding advance notice about food aid activities</li> <li>8) Continue emphasis on export agriculture, especially high value (e.g., floriculture) &amp; value-added products (e.g., consumer packs of fresh vegetables) to help increase domestic employment &amp; foreign exchange generation. Increased employment will enhance household's ability to buy food (food access), &amp; increased foreign exchange generation will enable government food imports in times of crisis</li> </ol>	<ol style="list-style-type: none"> <li>1) Broader participation in the House of Manji Foundation (HoMF) Enterprise Development Program which supports agribusiness development, especially SME development activities</li> <li>2) Support to Chemagro to develop &amp; operate a broad geographic coverage, rural inputs sales &amp; distribution system</li> <li>3) Cooperation on the finalization &amp; distribution of the Kenya Vehicle Manufacturers's small scale transport vehicle</li> <li>4) Industry pressure for reducing the role of Kenya Cooperative Creameries in the dairy business</li> <li>5) Cooperation with HoMF to stimulate soybean production &amp; processing</li> <li>6) Assistance to improve the distribution &amp; utilization of the APPROTEC small scale oil seed press</li> <li>7) Enhanced industry cooperation &amp; industry with government coordination on NTAE development, especially the role of SMEs therein</li> </ol>	<ol style="list-style-type: none"> <li>1) House of Manji Ltd Amin Gwaderi House of Manji Foundation Tel 219-516</li> <li>2) Kenya Vehicle Manufacturers Ltd David Percival, Managing Director Tel 151-2171/5</li> <li>3) Chemagro Ltd Henry Ogola, Managing Director Tel 334-513</li> <li>4) APPROTEC Ltd Nick Moon, Managing Director Tel 783-046</li> <li>5) Kibwezi Growers &amp; Exporters Cooperative Frida M Muya, Export Manager Tel 823-104/823-109</li> </ol>

Priority Food Security Constraints	Priority Constraints the Private Sector Can Help Alleviate	Constraints to the Private Sector Helping Enhance Food Security
<b>Tanzania</b>		
<ol style="list-style-type: none"> <li>1) Poor rural transport infrastructure, especially secondary feeder roads</li> <li>2) Limited use of production enhancing inputs, especially fertilizer &amp; hybrid seeds, due to their high cost</li> <li>3) Very minimal access to &amp; the high cost of formal credit</li> <li>4) Minimal availability &amp; use of appropriate production &amp; processing technology</li> <li>5) An unfavorable government attitude toward the private sector, especially foreign investors, &amp; poor public sector performance in agribusiness</li> <li>6) Limited availability of highly applicable agricultural &amp; agribusiness R&amp;D &amp; extension services</li> <li>7) Low consumer income, therefore weak purchasing power</li> <li>8) Limited availability of market &amp; agribusiness information</li> <li>9) Minimal agribusiness management &amp; technical skills</li> </ol>	<ol style="list-style-type: none"> <li>1) Access to formal finance</li> <li>2) Limited business management skills</li> <li>3) The shortage of business information</li> <li>4) The unfavorable government attitude &amp; enabling environment</li> <li>5) Poor inputs supply &amp; commodity output marketing</li> <li>6) Inadequate private sector with public sector dialog on enabling environment enhancements &amp; the government's attitude toward the private sector</li> </ol>	<ol style="list-style-type: none"> <li>1) Lack of private sector agribusiness experience due to the government's historical dominance of agribusiness &amp; less than positive attitude toward the private sector</li> <li>2) Lack of agribusiness, especially SME, access to &amp; the cost of credit to implement food security enhancing activities, heavily influenced by a very weak banking system</li> <li>3) The very limited resources (financial, time &amp; skills) of micro &amp; small agribusiness managers, who account for the largest number of agribusiness firms</li> <li>4) Agribusiness managers lack of focus on &amp; awareness of their possible role in food security enhancement, &amp; how it is related to their longer term interests</li> </ol>

Ways the Private Sector Can Help Enhance Food Security	Specific Opportunities for Private Sector Involvement	Companies Interested in Involvement in Food Security Enhancement
<b>Tanzania</b>		
<ol style="list-style-type: none"> <li>1) Establish linkages between local agribusiness firms &amp; potential international investors &amp; international suppliers willing to offer extended buyer credit for inputs</li> <li>2) Establish programs for larger agribusinesses to guarantee loans for their smaller suppliers</li> <li>3) Develop forward contracts between agribusiness firms &amp; their producer suppliers which include the supply of needed inputs</li> <li>4) Stimulate the process of privatizing state owned/controlled agribusinesses</li> <li>5) Jointly organize &amp; support effective agribusiness associations that establish a dialog with government</li> <li>6) Improve the linkages with &amp; increase subcontracting between larger &amp; smaller agribusiness firms</li> <li>7) Expand the availability of agribusiness technical &amp; managerial training</li> <li>8) Joint establishment of a venture capital fund to support technology adaptation, &amp; especially utilization</li> <li>9) Establish subsector association group credit schemes</li> <li>10) Establish a jointly supported entity to help SMEs apply for credit, including the development of viable business plans</li> <li>11) Jointly support NGOs, e.g., PRIDE Tanzania, that offer rural credit schemes</li> <li>12) Establish a private sector owned entity to provide high demand market information</li> <li>13) Jointly lobby for <u>government facilitated</u> foreign participation in export agriculture &amp; agribusiness</li> </ol>	<ol style="list-style-type: none"> <li>1) Joint support for the privatization of the Tanzania Fertilizer Co, including a scheme for employee &amp; public ownership &amp; foreign participation</li> <li>2) The formation of a Millers Assn &amp; increased support for TANEXA to enhance the success of their respective subsectors</li> <li>3) Increased agribusiness support to TNCCIA to establish a market &amp; technical information collection &amp; dissemination service</li> <li>4) Joint assistance to the SEFARMS Assn to enhance the role of women in agribusiness</li> <li>5) A vegetable oil industry supported assessment of the potential of the Kigoma Palm Oil project &amp; the potential role of TradeCo Oil Industries therein</li> </ol>	<ol style="list-style-type: none"> <li>1) Export Trading Company, Ltd Ketan Patel Tel 22534/24625/44006</li> <li>2) The Tanganyika Farmers' Assn W J G Mallya, Company Secretary Tel 3191/2 8736</li> <li>3) Tanzania Fertilizer Company Ltd Raum J K. Ringo, Marketing Manager Tel 27164</li> <li>4) E R. Milling Co Ltd Emmanuel Makubo, Managing Director Tel 255-811-324710/328068</li> <li>5) SEFARMS Company Ltd Dr Nazareth Mwaipopo, Manager Tel/fax 73792</li> <li>6) Coast Millers Ltd Dharampal Aggarwal, Managing Director Tel 35551/114757,0811-324144</li> <li>7) TradeCo Oil Industries Ltd Azim Dewji/Mohammed Dewji Tel 36867/36871</li> <li>8) Cargill Tanzania Ltd Gordon Alexander, Managing Director Tel 57-6877</li> </ol>

Priority Food Security Constraints	Priority Constraints the Private Sector Can Help Alleviate	Constraints to the Private Sector Participation
<b>Uganda</b>		
<ol style="list-style-type: none"> <li>1) Very limited use of quality inputs, e.g., hybrid seed, fertilizer &amp; crop protection chemicals, in production agriculture</li> <li>2) Inadequate rural roads to transport agricultural input supplies &amp; output</li> <li>3) Poor producer access to &amp; the high cost of credit, especially for purchasing inputs</li> <li>4) High post-harvest losses, especially of the more perishable commodities</li> <li>5) Lack of consistent markets, especially vacillations in the Kenya maize market caused by inconsistent Kenya government policies</li> <li>6) The low purchasing power of the vast majority of households, &amp; therefore their ability to buy food &amp; create viable markets</li> <li>7) Limited availability of market information</li> <li>8) Limited agribusiness entrepreneur management &amp; technical skills</li> <li>9) Limited agricultural &amp; agribusiness applied R&amp;D &amp; extension services, &amp; therefore minimal access to appropriate agricultural &amp; agribusiness technology</li> <li>10) Land tenure problems</li> <li>11) Minimal government support for agriculture &amp; agribusiness</li> </ol>	<ol style="list-style-type: none"> <li>1) Lack of business &amp; market information</li> <li>2) High post-harvest losses</li> <li>3) Minimal use of quality production inputs</li> <li>4) Limited agribusiness management &amp; technical skills</li> <li>5) Poor producer &amp; agribusiness access to appropriate technology</li> <li>6) Minimal availability of formal credit</li> <li>7) Minimal government support for agriculture &amp; agribusiness &amp; the unfavorable related regulations &amp; tax policies</li> <li>8) The lack of consistent markets</li> </ol>	<ol style="list-style-type: none"> <li>1) The short term profit &amp; return on investment orientation of the private sector versus the non-profit &amp; longer term orientation of food security enhancement</li> <li>2) Agribusiness managers lack of focus on &amp; awareness of their possible role in food security enhancement, &amp; how it is related to their longer term best interests</li> <li>3) Lack of agribusiness, especially SME, access to credit to implement food security enhancing activities, e.g., storage &amp; drying facilities</li> <li>4) The limited resources (financial, time &amp; skills) of micro &amp; small agribusiness managers, who account for the largest number of agribusiness firms</li> <li>5) Inconsistent local &amp; regional government regulations &amp; enforcement which discourage agricultural/agribusiness investment</li> </ol>

Ways the Private Sector Can Help Enhance Food Security	Specific Opportunities for Private Sector Involvement	Companies Interested in Involvement in Food Security Enhancement
<b>Uganda</b>		
<ol style="list-style-type: none"> <li>1) An undertaking by a division of the Private Sector Foundation (PSF) to collect &amp; disseminate market &amp; technical information</li> <li>2) A focus by the PSF on planning &amp; guiding the successful &amp; complete privatization of agricultural &amp; agribusiness parastatals</li> <li>3) An increased focus by the Uganda National Forum on agricultural/agribusiness enabling environment enhancement</li> <li>4) A Uganda Investment Authority led program for providing a single source for information on the availability of local financing &amp; how to access same</li> <li>5) A service to help SMEs apply for available financing, including assistance to help them develop viable business plans</li> </ol>	<ol style="list-style-type: none"> <li>1) Accelerated privatization of the Produce Marketing Board</li> <li>2) Privatization of Uganda Grain Milling Co subsidiaries, especially Uganda Maize Industries</li> <li>3) Cooperation between the Food Science Department at Makerere Univ (FSDMU) &amp; RECO Industries to finalize &amp; market FSDMU developed banana drying equipment</li> <li>4) Cooperation between the Kawanda Agricultural Research Institute (KARI) &amp; the PSF to finalize &amp; market KARI developed grain drying equipment</li> <li>5) Private sector assistance to The Dairy Cooperation to investigate the feasibility of a powdered milk facility</li> <li>6) Second a private sector manager to the Economic Policy Research Center at Makerere Univ to assist in the development of privatization policies &amp; procedures</li> </ol>	<ol style="list-style-type: none"> <li>1) CEI Karum Somani, Chief Executive Officer Tel 250212/259503</li> <li>2) Produce Marketing Board Frederick Karugonjo, General Manager Tel 270420/236238/231502</li> <li>3) Magric Ltd Nm John Magnay, General Manager</li> <li>4) Mukwano Industries (Uganda) Ltd. Alykhan Karmali, Executive Director Tel 235701/6</li> <li>5) Uganda Women's Finance &amp; Credit Trust Sarah Isabirye, Asst General Manager Tel 241275</li> <li>6) Hot Loaf Bakery Limited Matano I Kodawa, Technical Manager Tel 235171</li> <li>7) Sekalala Enterprises Ltd. Dr Robert R. Kawuma Tel 233934/243490/258714/243687</li> <li>8) Lira Millers Ltd Okela Oceru, Executive Director Tel 285-390/735</li> </ol>

Priority Food Security Constraints	Priority Constraints Where the Private Sector Can Help	Constraints to the Private Sector Helping Enhance Food Security
<b>GHA Region</b>		
<ol style="list-style-type: none"> <li>1) Low utilization of quality production inputs such as hybrid seed, fertilizer &amp; crop protection chemicals</li> <li>2) High post-harvest losses, significantly influenced by the lack of storage facilities</li> <li>3) Low consumer income/purchasing power</li> <li>4) Poor producer access to credit for production inputs &amp; storage facilities</li> <li>5) Underdeveloped infrastructure in the region, especially road systems</li> <li>6) Poor performance of agribusiness parastatals &amp; their slow &amp; poorly planned privatization</li> <li>7) Limits on arable land vs population</li> <li>8) Limited dissemination of applicable agricultural &amp; agribusiness R&amp;D &amp; extension services</li> <li>9) Minimal agribusiness management &amp; technical skills</li> <li>10) Inadequate &amp; inconsistent cross-border trade regulations &amp; enforcement, especially inconsistent import policies</li> <li>11) Limited availability of market information &amp; the suboptimal functioning of markets</li> <li>12) Land tenure problems</li> <li>13) Unfavorable government attitude toward the private sector, especially foreign investors, &amp; poor public sector performance in agribusiness</li> <li>14) Inadequate vertical &amp; horizontal linkages between agribusinesses</li> <li>15) Inconsistent donor food aid related activities</li> <li>16) Minimal government support for agriculture &amp; agribusiness</li> <li>17) An excessive government focus on food production self sufficiency, especially holding adequate grain reserves vs longer term food security enhancement</li> </ol>	<ol style="list-style-type: none"> <li>1) Poor agribusiness investment information availability &amp; weak investment analysis &amp; preparation skills</li> <li>2) Poor production input supplies availability &amp; output marketing</li> <li>3) Inadequate post-harvest handling, especially storage facilities</li> <li>4) Poor producer &amp; agribusiness access to credit.</li> <li>5) The weak agribusiness related enabling environment, including infrastructure-especially rural transport related</li> <li>6) Limited agribusiness management &amp; technical skills</li> <li>7) Poor producer &amp; SME access to highly relevant technology</li> <li>8) Inconsistent government actions &amp; policy enforcement</li> <li>9) Unfavorable government attitude toward the private sector &amp; minimal support of agriculture &amp; agribusiness</li> <li>10) Weak agribusiness investment conditions</li> <li>11) Inconsistent export markets, especially between Kenya &amp; Uganda, &amp; donor exports to Rwanda &amp; Burundi</li> </ol>	<ol style="list-style-type: none"> <li>1) The short term profit &amp; return on investment orientation of the private sector versus the non-profit &amp; longer term orientation of food security enhancement</li> <li>2) Lack of access to &amp; the cost of credit, especially for SMEs, for input supplies &amp; output marketing working capital needed to implement food security enhancing activities</li> <li>3) Constraints to private sector investment in agriculture &amp; agribusiness such as limited access to affordable financing, the means to identify &amp; assess the viability of potential investments, &amp; slow parastatal privatization</li> <li>4) Agribusiness managers lack of focus on &amp; awareness of their possible role in food security enhancement, &amp; how it is related to their longer term interests</li> <li>5) The limited resources (financial, time &amp; skills) of micro &amp; small agribusiness managers, who account for the largest number of agribusiness firms</li> <li>6) Excessive government involvement in agriculture &amp; agribusiness, a negative attitude toward the private sector &amp; a lack of government support for &amp; interest in agriculture and agribusiness</li> <li>7) Unclear privatization plans, policies &amp; procedures</li> <li>8) Inconsistent government regulations which discourage agricultural/agribusiness investment</li> </ol>

Ways the Private Sector Can Help Enhance Food Security	Specific Opportunities for Private Sector Involvement in Food Security Enhancement
<b>GHA Region</b>	
<ol style="list-style-type: none"> <li>1) Discussions with IGAD &amp; an Action Program to determine how key private sector firms &amp; IGAD can most effectively work together to enhance GHA food security</li> <li>2) Strengthen &amp; coordinate regional business organizations/associations such as ESABO so that they are better able to suggest &amp; support increased private sector involvement in food security enhancement, including a focus on alleviating the constraints to private sector participation in food security enhancement</li> <li>3) An IGAD private sector partnership to a) gather &amp; distribute food supply balancing information &amp; b) stimulate private sector investments that will enhance regional food security</li> <li>4) IGAD cooperation with the private sector to assist governments to identify the highest impact opportunities for enabling environment enhancement, especially transport systems, possibly via regional adaption of the Uganda National Forum model</li> <li>5) Identify effective mechanisms for extending credit to producers &amp; agribusiness SMEs such as group lending, mobile banks &amp; buyer guarantees</li> <li>6) Increase vertical linkages, especially between larger agribusinesses &amp; producers &amp; larger agribusinesses &amp; SME suppliers</li> <li>7) Food aid contributors should utilize the private sector to handle the commodities they are distributing to the greatest extent possible to build private sector capacity</li> <li>8) Encourage more local value added via the adaption of new processing techniques &amp; the development of affordable, more convenient or new types of food products</li> <li>9) A clearing house for information on donor, government &amp; NGO/PVO activities related to the purchase, sale &amp;/or distribution of food &amp; so the private sector as well as other aid contributors will be fully informed &amp; can anticipate the market impact</li> </ol>	<ol style="list-style-type: none"> <li>1) Private sector participation in the accelerated, but well planned &amp; implemented privatization of, a) the Tanzania Fertilizer Co b) the Uganda Produce Marketing Board, c) the Uganda Grain Milling Co , especially Uganda Maize Industries, &amp; d) Kenya Cooperative Creameries (or reducing its near monopoly)</li> <li>2) Increased private sector support of agribusiness associations such as, a) the Millers Assn in Tanzania to develop the flour milling industry, b) TANEXA in Tanzania, especially for group lending, c) a TNCCIA market &amp; technical information system in Tanzania, &amp; d) the SEFARMS Assn in Tanzania to increase the role of women in agribusiness</li> <li>3) Private sector leadership in the development of strategies to commercialize &amp; distribute new technologies such as, a) the Kenya Vehicle Manufacturers economical farm-to-market vehicle, b) the small-scale grain dryers developed by the Kwanda Research Station in Uganda, c) the small-scale manual oilseed presses &amp; irrigation pumps developed by APPROTEC in Kenya, d) a system for providing input supplies to producers in rural Kenya being developed by Chemagro in Kenya, &amp; e) the Makerere Univ Food Science Dept banana drying equipment in Uganda.</li> <li>4) Organize private sector support for local initiatives such as, a) the House of Manji Foundation Enterprise Development Program &amp; soybean industry development program in Kenya, b) an assessment of the Kigoma Palm Oil Project in Tanzania, &amp; c) an assessment of a powdered milk facility at The Dairy Corporation in Uganda.</li> <li>5) Increased the awareness of opportunities in NTAE by the private sector, the government &amp; donors, including the potential for SMEs in establishing linkages between larger NTAE firms &amp; SMEs</li> </ol>

## ABBREVIATIONS

GHA	Greater Horn of Africa
AFS	Agriculture and Food Security
AEMD	Agricultural Enterprise and Market Development
AMIS II	Agribusiness and Marketing Improvement Strategies
ESABO	East and Southern Africa Business Organization
SMF	Small Minority Firm
APPROTEC	Appropriate Technologies for Enterprise Creation
EDP	Enterprise Development Program
HoM	House of Manji
IFC	International Finance Corporation
UMA	Uganda Manufacturers Association
TFC	Tanzania Fertilizer Company
TNCCIA	Tanzania National Chamber of Commerce Industry and Agriculture
HORTICO	Horticultural Exporters Association
SA	SEFARMS Association
NCPB	National Cereals and Produce Board
KVM	Kenya Vehicle Manufacturers
EDP	Enterprise Development Program
SAP	Structural Adjustment Programs
PMB	Produce Marketing Board
UMI	Uganda Maize Industries, Ltd



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## 1 0 INTRODUCTION, METHODOLOGY, AND RATIONALE

### 1 1 Introduction

Due to factors such as drought and civil strife, inappropriate government policies and widespread poverty, most countries of the Greater Horn of Africa (GHA) have suffered and continue to suffer persistent and chronic food insecurity. While the private sector has been engaged in food production, food processing and related agribusinesses in East Africa for many generations, the presence of various constraints combine to greatly lessen the effectiveness of its contribution to overcoming food insecurity problems in the GHA.

The task force of the Greater Horn of Africa Initiative (GHAI) recognizes the above and in pursuit of overall GHAI objectives, especially achievement of on-going regional food security, has transferred funding to USAID's Global Bureau to support an activity that will enable GHA Missions and other interested entities to jointly address the issue of how the private sector in the GHA can become more involved in food security enhancement. The Global Bureau's Agriculture and Food Security (AFS)/Agricultural Enterprise and Market Development (AEMD) Division therefore requested the Agribusiness and Marketing Improvement Strategies (AMIS II) Project to implement an activity titled "Strategies for Increasing the Role of the Private Sector in Enhancing Food Security in the Greater Horn of Africa"

The purpose of this activity is to facilitate the development of an African-led<sup>1</sup> process for enhancing longer-term food security in the GHA using three countries, Kenya, Tanzania and Uganda, as case studies. The private sector alliance that this activity will develop will identify, and begin the implementation of, ways in which the private sector can play a significant role in alleviating the important constraints to enhanced food security in food-deficit GHA countries. The activity will feature extensive and intensive participation of the African private sector and will specifically a) identify and prioritize the constraints and challenges affecting GHA food security that the private sector can help resolve and b) develop strategies, ideally with regional applicability, that increase the involvement of the indigenous, and to a lesser extent, foreign private sector (e.g. multinationals such as Cargill, Heinz, Lonrho, Dole) in overcoming food insecurity in the GHA countries, especially those with the most serious food security problems.

The detailed Scope of work (SoW) for this activity can be found in Appendix E.

The SoW and this report sought to examine, inter alia, the role of the African private sector involved in providing inputs to production agriculture, and "downstream" businesses that process, distribute and handle food, as well as enterprises providing services necessary for the above (e.g., transportation). The SoW and this Progress Report also focus on the commercial opportunities for these businesses to expand their downstream production, i.e., generate market demand for agricultural output and provide market driven dynamics that would enhance markets for small scale and contract agricultural production. The SoW and this report do not seek to hoe old ground by producing research on the constraints facing farmers seeking to expand their agricultural output. While the latter reports are often valuable, many suggest recommendations that overlook the market driven decisions made by input suppliers and those "downstream". By concentrating on "downstream" operators the SoW sought to examine food security more through how to "pull"

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<sup>1</sup>Contrary to conventional donor-led approaches over the past 3-4 decades in the design, implementation, management and evaluation of development projects and programs, "African-led" exclusively refers to full leadership and involvement by African Governments, regional institutions, NGOs/PVOs and relevant private sector entities in problem definition and needs assessment, project/program design, implementation/execution, and evaluation, with donors playing only a facilitative role. While revamping conventional wisdom, this approach is intended to, among other things, ensure broad-based and comprehensive ownership and support of the development process by Africans, and subsequently, ensure sustainability.

commodities through the system rather than examining how farmers (and donors) can “push” commodities to the market place. Traditional agricultural studies focusing on such a “supply push”, while very valuable and complimentary to this report and SoW, were viewed by authors of the SoW to be more supply driven research rather than market driven from a down stream perspective. This approach may be different than that promoted by some in the donor community, but it is essential that the voice of the African private agribusiness sector, as described above, be heard and included in the GHAI process.

The case study countries are reasonably representative of the range of countries in sub-Saharan Africa with respect to their agricultural characteristics. These characteristics are shown in Table 1.1. Unfortunately, comparative data for the GHA region are not available.

**Table 1.1 Selected Agriculture & Food Characteristics of Study Countries, 1992**

	Kenya	Tanzania	Uganda
Population (million, 1992)	25.7	25.9	17.5
GNP per capita	\$310	\$110	\$170
GNP per capita relative to Sub-Saharan Africa	Medium	Low	Low
Inc. in food production per cap (avg. ann. %, 1979-92)	0.1	-1.2	0.1
Daily calorie supply as percent of requirements (1988-90)	86	91	83
Share of cereals in diet (%)	58.0	48.1	27.6
Cereal Imports (1,000 MT) 1991/92	669	252	22
Cereal Food Aid (1,000 MT) 1991/92	162	15	25
Fertilizer cons. (100 g /ha of arable land), 1991/92	391	153	2
Agriculture's share of exports	65	61	90
Agriculture's share of GDP	27	61	57
Agriculture's share of work force (%)	75	84	80
Arable land percent of total	20	50	75
Prevalence of malnutrition (under 5, 1987-92) (%)	18.0	25.2	23.3
Urban pop. as percent of total (1992)	25	22	12
Sources: World Bank World Development Report, 1994, Various World Bank Staff Reports and UNDP Human Development Report, 1994			



Tanzania and Uganda represent low-income countries in the GHA, while Kenya falls in the middle-income country category. In all three countries, but especially for Tanzania and Uganda, agriculture is the most important sector in terms of contribution to GDP, employment and exports.

Average annual growth rate in food production per capita between 1979 and 1992 declined at the rate of 1.2 percent for Tanzania, while Kenya's, like Uganda's, grew by an insignificant 0.1 percent annually. These trends will not help resolve the deficit in daily calorie supply as a percentage of minimum requirements that exists in all three countries.

## 1.2 Methodology

The basic methodology for this activity was planned to involve three phases subdivided into various steps. Phase one entailed substantial secondary research, phase two, 6 weeks of field research in the three countries, and in phase three, a seminar attended by private sector representatives from all three countries is anticipated. The objective of the seminar is to "hand over" ongoing activities to the private sector.

Figure 1.1 on the next page illustrates the five basic questions this activity addressed, and the approximate distribution of sources (secondary versus primary research) used for answering them.

A detailed report on the secondary research has been submitted to GHAI management.

Primary research involved extensive interviews with private agribusiness leaders in Kampala, Nairobi and Dar es Salaam. Some interviews were also conducted with relevant national government and lower, especially USAID, officials. The objective of these interviews was to determine private agribusiness leaders' interest in food security enhancement, the constraints to their increased involvement in food security enhancement, the specifics of how they might become more actively involved and identify specific investment opportunities that would lead to food security enhancement.

It is important to note that the objectives of this activity were primarily to a) determine how to activate private sector interest in food security enhancement and b) form private sector led teams that would quickly take on the objective of increasing the involvement of the private sector in food security enhancement in the GHA. The primary objective was not to advise USAID on enabling environment enhancement or policy improvement opportunities.

One of the challenges to accomplishing these objectives was that most private sector participants have not thought about their playing a significant role in food security enhancement and therefore have few ideas on how they would go about doing so. Therefore, a significant component of this activity involved working with private sector managers to identify how they might become involved in food security enhancement and identifying the constraints to their full participation.

This report is therefore not an analytical activity, but rather a listing of ideas and suggestions collected from private sector participants about how they might become involved in security enhancement, the identification of examples that those interested could consider working on, and, a listing of the names and contact numbers for private sector individuals identified as both interested and willing to participate in food security enhancement and a regional conference on the role of the private sector in food security enhancement. Other important deliverables of this activity were participation in and contributions to the ESABO conference, which launched the overall effort to involve GHA private sector participants in food security enhancement, and the Kenya Private Sector Core Team meeting, and formulation of Private Sector Core Teams in the three countries covered.

Figure 1 1

Conceptual Representation of LoE Allocation and Sources of Input to Accomplish Key Activity Objectives

% Total LoE*	Objective	Proportion Secondary vs Primary Sourcing										Ratio (3)
5	1) <u>Identify Important Constraints</u> to Food Security (1)	[Shaded cells representing 70% Secondary and 30% Primary sourcing]										70 30
12	2) <u>Prioritize Constraints</u> (2)	[Shaded cells representing 30% Secondary and 70% Primary sourcing]										30 70
30	3) Determine <u>Which</u> Priority Constraints the Private Sector Can Help Alleviate and the Constraints to Doing So	[Shaded cells representing 10% Secondary and 90% Primary sourcing]										10 90
35	4) Determine <u>How</u> the Private Sector Can Help Alleviate Priority Constraints	[Shaded cells representing 10% Secondary and 90% Primary sourcing]										10 90
18	5) Identify <u>Specific Companies</u> Interested in Participation, Determine their Means of Involvement & Form Private Sector Core Groups to Lead Future Activities	[Shaded cells representing 1% Secondary and 99% Primary sourcing]										1 99

- (1) First for selected countries, then for the GHA as a whole
- (2) Based on positive impact of alleviation, cost feasibility and how easily accomplished
- (3) Secondary Primary

\* LoE = Level of Effort

The ESABO conference held in Nairobi in mid-May, introduced to regional business leaders the subject of private sector involvement in food security enhancement in the Greater Horn and launched the activity. All three primary research consultants also participated in the Kenya Private Sector Involvement in Food Security Core Group meeting also held in Nairobi shortly after the conclusion of the field work. The significant participation of six Africans (Kanu, Kashangaki, Mwaniki, Mwale, Msaki and Ocheng-Obbo) was an important component of helping to make this activity “African-led”

### **1.3 Report Structure**

Section 1.4 of this report provides the contemporary definition for food security, describes the basic rationale for the involvement of the private sector in food security enhancement and suggests some aspects of food security that should remain the responsibility of the public sector. Chapter 2 attempts to provide an overview of the findings from the three country case studies and, where possible, project the implications to the GHA as a whole. Chapters 3, 4 and 5 present country level findings focused on specific private sector investment opportunities to enhance food security, the identification of companies interested in active participation in food security enhancement and the selection of country core group members. Chapter 6 provides recommendations for further action.

### **1.4 Expanding Private Sector Involvement in Food Security**

This section briefly outlines the contemporary definition of food security, the rationale for expanding private sector involvement in food security enhancement, the continuing and appropriate role of the public sector, and the important issues associated with the transition from public sector to private sector leadership.

#### **1.4.1 Definition of Food Security**

Food security has conventionally entailed access by all people at all times to sufficient food and nutrition for a healthy and productive life<sup>2</sup>. At the household level, food security has represented the ability of the household to secure enough food to ensure adequate dietary intake for all of its members. The new approach to achieving food security encompasses food access, availability and utilization at regional, national and household levels<sup>3</sup>.

Food access represents the ability of households and all individuals therein to consume the available food either by producing it or by purchasing it. This includes production for home consumption, food purchases by households using their own resources, as well as assistance from donors targeting destitute people. Food availability corresponds to the existence of a sufficient and consistent supply of food to meet the requirements of all individuals within a country. Sources of food are domestic production, net commercial imports and food aid from donors. Food utilization refers to the preparation and consumption of an optimal mix of food so as to provide proper nutrition to enable people to lead healthy and productive lives. This includes an optimal mix of balanced food in household diets that is prepared to provide the most nutrition and that is consumed at regular intervals as the body needs it or as custom requires. Potable

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<sup>2</sup>World Bank and U.S. Agency for International Development Research Reports, various years

<sup>3</sup>Breaking the Cycle of Despair: President Clinton's Initiative on the Horn of Africa. A Concept Paper for Discussion, Washington, D.C., November, 1994

water, adequate sanitation and health services, as well as household knowledge of food storage and processing techniques, nutrition education, and proper child care are also part of effective food utilization<sup>4</sup>

Food insecurity or less than adequate food security reduces peoples' quality of life (undermines good health) and fosters the unstable social, political, environmental and economic conditions that prevent sustainable economic growth. Poor health constrains labor productivity and represents a significant impediment to increases in both social and economic growth.

#### 1.4.2 Rationale for Private Sector/Agribusiness Involvement

Agricultural commercialization, economic development, and nutrition are linked with one another. Yet, agricultural commercialization, especially under conditions of widespread subsistence farming, has been found to often generate new food security risks with which small farmers are not able to cope<sup>5</sup>. Understanding the linkages between production agriculture, agribusinesses and food security is therefore essential. Agribusiness development is of more direct relevance to food security than development of other non-agriculture related business sectors<sup>6</sup>. Without a strong, efficient and effective agribusiness sector, the linkage between producers and consumers will be weak, resulting in product losses, high direct or indirect (government-subsidized) food costs, supply/demand imbalances, poor supply of production inputs, low incomes, and inadequate information flow between producers and consumers. It is also very significant from a development perspective that the raw materials agribusinesses buy, process, store, market locally or export, are often produced by poor, peasant, rural-based farmers who constitute a majority of the population in GHAs countries. Therefore, agribusiness development is essential to food security enhancement and the private sector can and should play the dominant role in agribusiness development.

In this study, "private sector" refers to commercial entities, i.e. firms with a profit and/or financial motive. It includes microenterprises, small- and medium-sized enterprises, large/multinational private agribusiness firms, importers/exporters, and agricultural processors such as grain millers, and their associations. The potential for private sector agribusiness involvement in food security is substantial.

The benefits foreseen from enhanced private sector agribusiness participation in food insecurity alleviation are outlined below:

- Lowering the Gross Marketing Margin

When viewed from a food system perspective, the gross marketing margin is the costs and profits associated with the marketing functions and services performed between the producer and the consumer, i.e., the difference between the consumer price and the producer price. An efficient marketing system is one with low gross marketing margins, taking the degree of product transformation into account. Due to the private sector's need to keep operating and administrative

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<sup>4</sup>Candidate Indicators for Food Security - Food Availability, Food Access and Food Utilization USAID Food Security Performance Measurement Workshop, Arlington, Virginia, December 11-12, 1995

<sup>5</sup>von Braun, Joachim, Eileen Kennedy, and Howarth Bous. 1990. Commercialization of Smallholder Agriculture: Policy Requirements for the Malnourished Poor. Food Policy, 15 (February): 82-85

<sup>6</sup>Tschirley, David L., et al. 1995. Food Aid and Food Markets: Lessons from Mozambique. Food Policy

costs low as stimulated by the forced discipline and relatively higher (versus parastatals) efficiency and effectiveness of the competitive market within which it operates, the private sector has demonstrated an ability to achieve and maintain higher levels of performance as compared to the public sector, and thereby operate with lower costs and marketing spreads. Agribusiness efficiency can be enhanced by participants' efforts to improve the quality of raw materials they utilize (lower product losses, higher yields), better timing of delivery of raw materials (lower carrying costs), and improved labor utilization (lower unit labor costs), and improved use of fixed and working capital (lower capital costs and capital requirements). Improved effectiveness can be achieved through producing the right product at the right time and making it available in the right place. Enhanced marketing efficiency and effectiveness will lower gross marketing margins.

The net outcomes of lower private sector marketing margins are higher producer prices for the most appropriate type and quality products, and/or lower consumer prices, resulting in increased food affordability and consequently, enhanced food security.

► **Developing Private Sector Capacity**

Private sector involvement in food security, particularly in the sale and monetization of development and emergency food aid, carries a high probability of developing the private sector's human, institutional, and infrastructural capacity.<sup>7</sup> If food aid monetization is endorsed and encouraged by the respective governments of the Horn, and broad-based private sector involvement established and sustained, food aid auctions can enable private entrepreneurs to learn by doing, e.g., which food aid items are most suitable and where, procedures for distributing and selling food items, determining meaningful local market acceptance, setting or estimating storage and transport costs, understanding relationships between volumes or sizes of food aid shipments and market values, and understanding pricing. The process of price formation may involve private sector players being price takers or on the other hand, it may entail setting prices for differentiated products (without "commodity" characteristics). Once private entrepreneurs come to realize the viability of food distribution enterprises, they are likely to invest in food storage and transport vehicles and service centers, thereby improving their ability to hold larger stocks and convey them quicker to take better advantage of commercial market opportunities. Earnings derived from their participation in food monetization can be invested into expanding their businesses.

► **Stimulating Rural Employment, Foreign Exchange Generation, and Food System Infrastructure Development**

If private agribusinesses are competitive enough, which is greatly influenced by the efficiency and effectiveness of production agriculture and the quality of the enabling environment, they may be able to penetrate regional and/or international export markets and earn foreign exchange that can be utilized in private food and non-food agribusiness development as well as by the public sector. The export market is a means of increasing the return on domestic land and labor, and building production and distribution capacity that can be shifted to the domestic market in times of a food security crisis. Successful export marketing will demand increased volumes of output from production agriculture. This will require more raw material inputs and subsequently provide more employment both in agriculture and domestic industry, but not necessarily increase the domestic food supply directly. This additional employment will generate wages that can be used by households to reduce food insecurity. Foreign exchange earnings from exports of agribusinesses could also be used by the private sector and/or government to import food in food-deficit years.

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<sup>7</sup>See Tschirley, David L. et al, 1995

► Improving Food Quality, Nutritional Value and Accessibility

Agribusiness processing activities can make a substantive contribution to improved food utilization by improving nutritional quality, digestibility, and palatability. By utilizing improved technology and marketing expertise, agribusinesses can enhance overall consumer access to food through better timing, choice and location of markets, and improved and timely dissemination of market information to both producers and consumers, i.e. better supply/demand balancing. This combination of improved food quality, nutritional value and accessibility offers great potential for enhancing food security especially for urban consumers.<sup>8</sup>

► Employment Creation

Since the raw materials of agribusiness are largely from production agriculture, which is in turn undertaken generally in rural areas by smallholders, increased demand for such raw materials from agribusinesses generates rural employment opportunities for the semi-skilled and unskilled, and absorbs surplus rural labor. This could enhance rural food and livelihood security and assist in slowing down rural-urban migration, thereby reducing social pressures on urban areas.

► Stabilizing Current Products and Prices

All agricultural and fishery products are in varying degrees perishable. Varying amounts of spoilage, wastage and physical loss happen at all stages between harvest and consumption, and can contribute to destabilization of prices. Harvests, existing stocks and imports/exports can also cause food commodity prices to vary significantly seasonally. However, through more efficient and effective processing and utilization of current output from production agriculture, agribusinesses preserve the quality of agricultural products, increase their market value, reduce seasonality and perishability, and in so doing, help to stabilize food prices and therefore enhance food security.

► Reducing Government Subsidies to Parastatals

In most countries of the Horn, state-influenced marketing cooperatives operate in conjunction with parastatal marketing boards in input distribution to production agriculture as well as food and grain marketing. Unfortunately, cooperatives and parastatals have been inadequate or poor performers in their grain marketing functions due to operating inefficiencies (high administrative and personnel costs), weak management, and high transport and storage costs. In some countries and/or commodities, a "buy high, sell low philosophy" has been pursued for political reasons. This combination has led to parastatals being almost perennially dependent on government subsidies for survival. These transfers have worsened national budget deficits and supported mismanagement in the parastatal sector. By enabling and encouraging private sector involvement in agricultural inputs supply and food marketing, such massive subsidies from government will diminish, budget deficits are likely to be lower, and savings from parastatal support by government could be used to facilitate investment in the long-neglected private sector and/or to import food in years of deficit, and thereby promote food security.

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<sup>8</sup>Hulse, J H Food Processing and Agro-Industries: Engines of Economic Development Essential to Urban Food Security. Paper Presented at IFPRI Open Seminar on Food Security, Washington, D C, October, 1995

### 1 4 3 Appropriate Role of The Public Sector in Food Security

States are the signatory parties to the international human rights instruments, and as such have the ultimate responsibility to ensure that human rights, including access to food, are realized. But they strive to achieve this against the backdrop of two mounting pressures. On the one hand, governments are often asked by the IMF, World Bank, and other donors to relinquish a substantial share of their traditional agricultural inputs supply and output marketing functions to the private sector for reasons of increased efficiency (and their role is further reduced by the process of globalization). On the other hand, they are urged by the international community to make significant improvements in their macroeconomic management and budget deficits. There are also numerous international food security conferences to attend, and pressure to adopt resolutions passed therein.<sup>9</sup>

While significantly increased private sector participation, and diminishing public sector involvement in grain and food marketing, storage and trade represent an emerging trend, several factors support a continuing role for the public sector in several aspects of food security. The most important of these are outlined below.

#### ▶ Management of Emergency Food Stocks

Development and management of emergency food reserves in the interest of food security is a serious concern for every country. The management of national grain reserves in the GHA has been the responsibility of the public sector via parastatal grain marketing boards. Given the experience gained by these entities over the years, their current facilities for grain storage, and the political, civil and economic sensitivity of national food security, emergency food stock development and maintenance is invariably a responsibility left entirely to the public sector. As parastatals streamline and divest excess storage capacity, determining the optimal size of a strategic reserve stock, and the rules for buying, turning over and selling grain, become priority concerns.

#### ▶ Food Emergency/Crisis Prediction

National food supply information and early warning systems are a great asset in ensuring advance prediction of impending food shortages and forthcoming food insecurity. Unfortunately, not every country in the Horn operates a fully functional national early warning system. Where such systems exist, their functions are often performed jointly by the Ministries of Agriculture, Economic Development and Planning and bilateral (USAID-FEWS) or multilateral (FAO) donors. Usually, only the public sector has received donor support to develop the relevant capacity to carry out this role.

#### ▶ Providing Food Imports for the Poorest/Most Vulnerable Groups

The distribution of emergency/relief food aid in the Horn, and other food deficit regions of the world, has frequently been based on a two-pronged approach: program food aid and targeted food aid. In the former, food aid is sold on the market, while the latter involves free distribution to vulnerable groups, e.g., pregnant and lactating mothers, children under five and the elderly. In the event that pledges for donor emergency/relief aid do not reach a country soon enough to avoid widespread starvation during droughts or civil unrest, a key option is commercial imports by government, part of which are often distributed free to vulnerable groups. Given the private sector's profit and return on investment motive, the public sector may have to continue to be involved in at least providing the funds for targeted (free food

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<sup>9</sup>The World Summit for Children (1990), United Nations Conference on the Environment and Development (1992), the international conferences on nutrition (1995), and the International Conference on Women and Development (1995), to be followed by a World Food Security Summit in late 1996.

distribution) food aid. However, it is also possible for the private sector to be paid by government to get involved in the food aid distribution process.

▶ Remote/High-Cost Food Distribution Areas

Private enterprises are unlikely to have an interest in food distribution in remote and often inaccessible areas because of the difficulty and high cost of transporting food across poor roads. Therefore, this is likely to be an area of continued public sector involvement, either directly or indirectly, but possibly implemented via subsidies to private agribusinesses.

Infrastructure development, especially passable roads, is needed to enable the food procurer to obtain inputs and market their output. Without a usable road system transport losses and costs will be high, supply demand imbalances will be accentuated and food security reduced. It is difficult for the private sector to fund significant road building programs and this must therefore remain a key role of government. Good communications systems provide the basis for market and technical information transfer. While some communication systems, such as telephones, radio and TV, can be built and owned by the private sector, the development of communication systems in rural, sparsely populated areas will likely require government support.

#### 1.4.4 Issues in the Transition to Increased Private Sector Involvement

Although shifts in the roles of the public and private sectors in food security to more private sector responsibility have been discussed above several issues and/or challenges arise while doing so. These are outlined below.

▶ Governments' General Distrust of the Private Sector

Private entrepreneurs engage in business ventures with the short-term objective of making a profit and the longer-term objective of achieving a reasonable return on investment. Given the sensitivity of food security, and the possibility of profit-making by the private sector, it has been argued that in the interest of consumer welfare, food distribution is too critical an issue to be left entirely to the private sector. The argument is reinforced by the lack of interest on the part of private traders to operate grain procurement and marketing operations in remote areas, and the preference to work in places such as urban centers, where road access is easier, costs are lower, and profit margins may be low, but volume high and overall returns good. In many cases, the government does not believe the private sector can be relied upon entirely to serve humanitarian interests (versus profit) in times of food and/or related crises.

▶ Re-employment of Workers Retrenched Due to Parastatal Dissolution

Parastatals in the Horn employ large numbers of semi-skilled and unskilled workers. It is important to plan for ways to re-employ workers being made redundant by parastatals as a result of the diminished public sector role in the food system. The establishment of a vibrant private agribusiness sector will help in that it will require similar skills.

▶ Commodities Price Stabilization

Even when prices are generally stable, investments in marketing infrastructure are necessary to ensure effective, efficient, continued, and reliable conveyance of food from producers to consumers. In the face of price instability (depending on the source of instability), private sector investments in marketing infrastructure such as vehicles, storage and marketplace facilities are dampened. If the price instability is due to seasonal, anticipated rises in price, the incentive to invest in storage may be strong. Price stabilization planning is therefore an all important part of the overall plan for moving from heavy public sector to dominant private sector control of agriculture and agribusiness.

▶ **Financing the Transition to Increased Private Sector Involvement in Food Security**

Increased private sector participation in food security enhancement calls for the development of an efficient marketing system. Greater efficiency and productivity of agricultural production and marketing is partly a function of public investment in agricultural and marketing system research and rural infrastructure (roads, irrigation, water control, land improvement systems, communications, health centers, etc.). These activities have a heavy public-good aspect and will not be undertaken by the private sector.

▶ **Establishing a Forum to Develop and Begin the Implementation of the Transition**

The transition should involve continued utilization by the private sector of public sector/parastatal assets that are often not otherwise available, such as storage, transport and grading facilities. Offering the private sector leases or acquisition of parastatal assets should be considered. The transition should also emphasize sustainability, be properly developed to suit local political and socioeconomic conditions and be guided by a forum comprised of well informed public and private sector participants. Effective transitional planning is the key to successfully shifting responsibility for long term food security from the public to the private sector.

## 2 0 FINDINGS OVERVIEW AND REGIONAL IMPLICATIONS

This section describes specific opportunities to increase the role of the private sector in enhancing food security in the three countries visited and the results of the Kenya Core Team meeting, the first Core Team to be formally organized

### 2 1 The Current Contribution of the Private Sector to Food Security

**Tanzania** On average, Tanzania produces very nearly (90%+) the amount of food needed to feed its population, despite its vulnerability to drought. The national food security situation is satisfactory on average, although there are sharp differences between regions. The problems of food insecurity and hunger are more related to a lack of access, i.e., effective purchasing power, due to inadequate incomes, rather than a chronic lack of supply

Despite a history of extensive government control, the private sector is actively involved in a variety of agribusiness activities, many that directly contribute to food security. The larger millers have invested heavily in storage capacity, private traders have invested in nationwide distribution and storage networks for cereals, particularly maize, and a number of small firms have become involved in fertilizer and seed distribution, although their geographic coverage is limited

It is important to note that the private sector in Tanzania, although faced with a myriad of constraints, is active and in some instances thriving. Many businesses have identified innovative ways of overcoming the most serious constraints affecting them. Never the less, the private sector must intensify its efforts to improve its dialogue with the government ministries that are involved in the liberalization process. Private sector agribusiness owners and managers report that they are having discussions with banking officials in an effort to improve access to finance for agribusiness firms. The model provided by the Uganda National Presidential Forum (See 5 6 1) should be duplicated in Tanzania, at least to some degree. The creation of a private sector foundation, (See 5 6 1) similar to the one in Uganda would also represent a step in the right direction

**Uganda** As a general rule Uganda has not suffered from famine as have other countries in East Africa, including others on the GHA. There are districts such as Kabale, Bugisu and Iganga where land and soil conditions limit the amount of food produced, with resulting human hardship. Most areas in Uganda produce sufficient food supplies to feed the local population. However, there are many families that do not have enough income to purchase the volume and kind of food required for adequate nutrition

Post-harvest losses are at the top of the list of food security related problems in Uganda. This is true for fresh fruits and vegetables, cereals and pulses and raw milk. Estimates of actual losses run as high as thirty-five to forty percent for fresh fruits and vegetables, and twenty-five to thirty percent for cereals and pulses. During the wet season, raw milk supplies far exceed the demand, with considerable waste the result.

The private sector in Uganda is resilient. Several well-established firms are interested in expanding their storage facilities by either investing in new facilities or acquiring parastatal facilities

Geographically, Uganda is in a strategic and agronomic position to contribute to regional food security. Kigali, Rwanda, is only 589 km from Kampala and Bujumbura, Burundi, is 880 km south-southwest. Food security in these areas will be a problem for quite some time. Uganda is the gateway for over land staging, storage and shipment to these destinations. The World Food Program and others place tenders in Uganda for commodities required for their relief programs. Lake Victoria provides water transportation between Kenya, Tanzania, Uganda, Rwanda and Burundi



Notwithstanding large post-harvest food losses, Uganda should, in the short run, have no real food security problems. However, in the long run agricultural growth must exceed population growth by a "comfortable" margin.

Uganda's key role in GHA food security enhancement would be that of a exporter of food to its neighbors.

**Kenya** The private sector in Kenya is more aware of its role in contributing to food security than the private sectors in either Uganda or Tanzania. There are historical reasons for this as Uganda and Tanzania have endured long periods of government control, and Uganda has suffered long periods of cruel, disruption in its economic and political affairs. In Kenya, the House of Manji Foundation is an outstanding example of a private sector enterprise that is concerned with both earning a profit and improving the economic conditions of agricultural producers. Officials of the Foundation are aware of their role and responsibilities, vis-a-vis the private sector and food security.

The General Manager of Chemagro Fertilizer Company has expressed a strong interest in developing programs and systems that will support the distribution of inputs to small farmers throughout Kenya. The implications of this are significant in increasing food production, and related activities that will increase food security.

Kenya Vehicle Manufacturers Ltd. not only has developed a farm-to-market vehicle suitable for small-scale producers, but has also developed and manufactured a portable storage facility that can provide storage for commodities used in food relief operations.

Appropriate Technologies for Enterprise Creation (APPROTEC), an NGO, is another example of an organization dedicated to providing equipment and technology that will increase production and provide access to food commodities.

All of these entities are interested and willing to participate in food security enhancement in the GHA.

**GHA Region** Emphasis on both the availability of and access to food in the GHA brings several added dimensions into the issue of food security. While increased food production nationally and regionally is a necessary contributor to food security, increased supplies of food, while contributing to availability, is not sufficient to ensure the access aspects of food security. Therefore, policies that target production self-sufficiency, or any other form of increased production, address only part of the food security challenge. To address food security fully, governments, NGOs and the private sector need to understand the constraints to sufficient food access by disadvantaged sections of society.

As previously defined, access, as related to food security can be thought of as the ability of a household or individual to physically and economically secure the food supplies it needs. Access to sufficient food may arise in several ways, the household either grows the required food, or it grows some of the required food while purchasing the remainder, or it buys all of its food requirements. In the first instance, the household is food self-sufficient, meeting all its requirements from the allocations of its factor endowment in food production. In the second instance, the factor endowment when fully employed is either not sufficiently productive to enable the household to achieve food self-sufficiency, or is deployed in the production of other goods that can be exchanged for food. In the third instance, the household uses its factor endowment entirely on the production of non-food goods and services, and exchanges these on the markets to derive income that is used to buy all its food requirements.

Unlike food self-sufficient households, households in the second and third instances are market reliant when it comes to accessing sufficient quantities of food. With a large proportion of GHA regional households falling into the latter categories, it is increasingly clear that food self-sufficiency policies, government mandated and managed food markets, and the isolation of the private sector are all inadequate strategies for combating the food insecurity that arises in households that are either partially or fully reliant on food markets.

Increased commercial agricultural production, particularly in Tanzania and Uganda, could have a significant food security enhancement impact for Ethiopia, Eritrea and Somali Land. However, full realization of the benefits from this increased production would depend on significantly improved storage and distribution systems as well as enhanced cross-border trade.

Private sector interest in the enhancement of food security is more pronounced in Kenya than in either Uganda and Tanzania. Nevertheless, private sector interest in food security is increasing in all countries and this is certainly reason for optimism. For all countries on the GHA there is a compelling need to involve the private sector in food security enhancement and to create an interest and understanding in the relevant complex problems and possible solutions, especially in Eritrea, Ethiopia and Somalia.

## 2.2 High-Priority Constraints to Food Security

**Tanzania** The constraints that production agriculture and the private sector face in Tanzania, which in turn impedes their contribution to enhancing food security, are poor rural transportation infrastructure, limited use of inputs, inadequate access to formal credit, limited access to appropriate technology, limited availability of agricultural extension and research, and land tenure problems.

The highest priority constraints involve the underdeveloped rural transportation infrastructure and the absence of adequate inputs, i.e., quality seed, fertilizer and technology. The alleviation of these constraints would have a very positive impact in improving food security. The population explosion in Tanzania, and the increasing population density of the cities, creates an increasingly severe problem vis-a-vis providing adequate nutrition. As the private sector recovers and moves forward as a result of liberalization, increased employment will help mitigate this problem.

**Kenya** The first and perhaps the most important constraint hindering the development of food security for Kenya is the limited amount of arable land combined with rather high population growth. For a number of reasons, crop yields have declined and will continue to do so unless major efforts are made to greatly improve production systems.

Field research for this activity in Kenya resulted in grouping three constraints together, i.e., low level of input utilization, poor access to credit for small producers and the very limited availability of transportation for moving inputs to small farmers when those inputs are needed. Also, transportation of produce to market is a real problem. The House of Manji Foundation, Chemagro Limited and Kenya Vehicle Manufacturers, Ltd., have all indicated that they are willing to take an active support role in helping mitigate these food security constraints.

**Uganda** When prioritizing the constraints to increased agricultural production in Uganda, and in the GHA as well, it must be realized that many of the constraints are, in fact, so interrelated that one constraint cannot be reduced without at the same time reducing several others. For example, credit must be available to purchase the proper seed, the right fertilizer must be on hand for application at the right time, and the farm gate price must be high enough to justify the use of these inputs. Improved input availability and effective output marketing both require that farm to market roads are serviceable in all weather conditions. Appropriate technology dissemination is necessary to assure proper seed bed preparation and input utilization.

The highest priority constraints in Uganda are limited use of inputs - especially seed and fertilizer, poor access to credit for inputs, inadequate rural transportation infrastructure, limited agricultural research and extension, minimal access to appropriate technology, and low purchasing power of domestic consumers. The owner and manager of a well-established Ugandan agricultural business enterprise stated categorically, "Long run food security in East Africa depends upon the full development of the commercial agricultural potential of Uganda." Perhaps this can be debated, but the

contribution to GHA food security that could be made through enhanced agricultural production in Uganda cannot be denied

**GHA Region** Many of the constraints identified in Uganda, Tanzania and Kenya are common to all three countries, and without doubt, these same constraints are also present in the other GHA countries. The first and most apparent is the underdeveloped infrastructure in the old East African Community. In this regard, the lack of all weather roads is a priority constraint that seriously inhibits food security. Generally, usable road systems exist only along the main routes connecting major cities. More often than not, these roads are in poor condition resulting in inordinately high transportation costs for the movement of production inputs and the marketing of agricultural output. Farm-to-market roads, per se, as a general rule do not exist in the GHA. The governments of all three countries are well aware of these conditions. However, their lack of financial resources inhibits the level of investment necessary to correct these conditions. Ethiopia, Eritrea and Somalia (and now Somali Land), are not significantly different. The private sector in the GHA can and should explain to the GHA governments the economic and social benefits of improved road systems, and indicate where improved conditions would be of greatest benefit.

Also common to all three countries is the underutilization of modern production inputs such as fertilizer, quality seed and plant protection chemicals. This results in reduced output and products of a relatively low quality. The widespread lack of credit is part and parcel of this problem. Credit systems for small farmers in all three countries are limited to a few "special" projects that reach only a small fraction of agricultural producers. Small farmers suffer the most from the lack of access to credit in all countries and therefore, access to the required inputs for increased and improved production. Generally, domestic markets in all countries are best described as primitive and limited in their functions. When marketing systems in all countries improve, food security will be greatly enhanced, for there will be adequate storage and use of proper technology for commodity preservation.

The many problems associated with the movement from parastatal to private sector ownership and operation are common to both Uganda and Tanzania. Historically, Kenya did not suffer to the extent that Uganda and Tanzania did from government control and operation of the industries that affect food security. Based on interviews conducted for this activity, the same problems being experienced in Uganda and Tanzania are also relevant for many other countries on the GHA.

## **2.3 Priority Constraints to Food Security the Private Sector Can Help Alleviate**

**Tanzania** The priority constraints which the private sector can help alleviate are very limited access to formal finance, limited business management skills, a shortage of business information, and an unfavorable government regulatory environment.

Cross-border trade constraints, especially to exports, limit the development of the agribusiness sector in Tanzania. Increased and accelerated cross-border trade and cross-border investment, would result in significant benefits to Tanzania, and to food security enhancement in the GHA. The full agricultural production capability of Tanzania is far from realized, and interregional cooperation could help accelerate the development of production agriculture in Tanzania. The proposed conference of the GHAI Private Sector Core Teams should identify specific actions to be taken to stimulate cross-border trade.

The dearth of formal credit can be alleviated, at least to some degree, by establishing a formal dialogue between private sector firms and banking institutions regarding the "bankability" of agribusinesses and credit "comfort" schemes, and the involvement of the Ministry of Finance. Several business enterprises that were interviewed indicated that there was some cause for optimism as a result of meetings and discussions with banking officials.

**Kenya** Agribusiness investment in Kenya is constrained by inconsistent government policies. It is imperative that the private sector assumes a leadership role in working with the various GoK institutions to reduce and/or eliminate the impediments to agribusiness investment. In July of 1996 full convertibility was established among the Kenyan, Ugandan and Tanzanian currencies. For example, a bank in Nairobi will exchange Ugandan shillings for Kenyan shillings. This free convertibility of currency will lead to improved cross-border trade and investment. Managers and owners interviewed in all three countries expressed interest in regional investment opportunities. Increased investment in agriculturally-related businesses would mean increased food security, since more a vibrant, effective and efficient agribusiness sector will improve the linkages between producers and consumers, and increased effective demand (access, based on the wages earned from new employment).

The most important constraints that the private sector can help to alleviate through collective action and dynamic leadership are inadequate access to credit, by producers and agribusiness SMEs - both long term financing and short-term working capital, and improving the knowledge of agribusiness investment opportunities, including cross-border investments and possible joint ventures.

**Uganda** The constraints that the private sector can help alleviate as reported by owners and managers of private sector firms are the lack of business information, very limited formal credit and, if available, at prohibitive interest rates, unfavorable government regulation and tax policy, and poor infrastructure.

**GHA Region** Many of the constraints to food security that the private sector can help alleviate are common to all of the countries in the GHA including those that are not participating in this activity. Collective, coordinated efforts, including dialogue with the various governments, will contribute to the mitigation of many of the enabling environment constraints. However, the alleviation of these common constraints is a long-run endeavor.

The lack of market and agribusiness investment information is a key constraint to agribusiness development in the GHA. Organizations like IGAD, COMESA, FAO have all developed market information systems for the region that could be of great benefit, particularly to smaller firms, if the information is effectively disseminated. It is recommended that a single organization such as the East and Southern African Business Organization (ESABO) be given the mandate by private sector participants and the resources to compile and disseminate this information to the private sector through regional associations like TNCCI or the Confederation of Tanzania Industries. Agricultural business associations such as the Tanganyika Farmers' Association Ltd and a number of similar organizations in Kenya and Uganda should be involved. The Uganda National Farmers Association should be willing to play a leadership role in Uganda, for they are actively involved in disseminating similar information to their members.

#### **2.4 Constraints on Private Sector Participation in Food Security Enhancement and Ways in Which These Can Be Overcome**

**In General** The private sector is driven by profitability, return on investment, sales growth and sustainability of the enterprise. It also tends to have a rather short term returns focus, primarily as a risk reduction mechanism, and much prefers dealing with predictable circumstances. Food security, especially in the GHA, is a long term concern, and to some extent is involved with providing for abnormal circumstances, e.g., drought and civil unrest. It is difficult for a firm to make a profit or satisfactory return on investment from nearly all short to intermediate term direct food security enhancement activities.

Therefore, the main constraint to private sector participation in food security enhancement relates to an inconsistency of objectives.

Also, private sector firms participating in agribusiness systems in an early stage of development are usually fully occupied with establishing and sustaining themselves in difficult operating conditions, and are not prone to invest resources in “greater good” and/or long term benefit activities such as food security enhancement. These firms must seek investments for their time and/or financial resources that yield short term returns and sufficient margins to provide the reinvestment capital needed to grow their businesses. Otherwise they will not survive, or will constantly require the infusion of new capital.

The key to overcoming these constraints is to identify opportunities for private sector participation in food security enhancement that are consistent with private sector objectives. These will likely involve agribusiness investments that have reasonable profit and return potential, and reasonably predictable short to intermediate term outcomes, yet contribute to longer term food security enhancement.

Another constraint to private sector participation in food security enhancement is that most agribusiness managers have not thought about involvement in food security enhancement and therefore are at somewhat of a loss as to if and how they might participate. This means that considerable education and creative thinking will be required to a) help private sector managers understand that food security enhancement is to their long term benefit and b) develop specific opportunities for the profitable involvement of the private sector in food security enhancement.

**Tanzania** Tanzania is in the early stages of moving from parastatal to private ownership of production agriculture and of agribusiness enterprises, and the uncertainties involved in this transition are more pronounced than in either Uganda or Kenya. Based on interviews with business owners, researchers found that there still prevails in Tanzania a negative attitude toward privatization. One owner explained that the parastatal system has been in place for so long, and is so ingrained in the Tanzanian perspective, that this attitude will only change with the passage of time. The private sector’s participation in food security will ultimately depend upon the success of this public to private ownership transition, the development of and access to formal financing and the development of a supporting infrastructure.

**Kenya** While credit availability to producers and SME agribusinesses and weak agribusiness management and technical skills constrain private sector participation in food security enhancement, Kenya represents the most advanced of the three countries in terms of credit availability and entrepreneurial skills. Kenya is moving forward to privatize the Cereal Production Marketing Board with its extensive facilities and operations throughout Kenya. The House of Manji sponsored Enterprise Development Program (EDP) in Kenya is a wonderful example of how the private sector can increase food security and stimulate economic development. Expanding the Enterprise Development Program to other countries in the GHA should be a major topic at the proposed GHAI “Role of the Private Sector in Food Security Enhancement” conference, with all core team members participating. The Enterprise Development Program’s objectives are to identify investment opportunities in agriculturally related enterprises, and to evaluate opportunities for possible investment. In addition, the EDP has expressed an interest in developing programs that will provide inputs to small farmers.

**Uganda** As mentioned above, it must be understood that the private sector is profit-motivated and that investment is the key to increased employment and increased effective demand. The Uganda private sector can help alleviate problems related to food security by operating in an effective, business-like manner and by making the necessary investments to fully develop the private sector’s potential in agribusiness.

**The GHA Region** Effective and efficient private sector participation in food security enhancement depends on a number of variables including, inter alia, government policy and practice, communications and roads, financing, institutional factors and entrepreneurial skills. Therefore, the lack of these are a constraint to private sector participation.

There is no consensus ranking of constraints or impediments to private sector participation in food security enhancement that fits any particular country or group of private enterprises. A constraint to one firm is not necessarily a problem to the next. In all three countries—Tanzania, Uganda and Kenya—there is, in general, a positive attitude toward private sector participation in food security enhancement. Liberalization of policies effecting the private sector should in the long run, and if diligently pursued, allow agribusinesses in all three countries to reach an optimal level of development and therefore significantly participate in food security enhancement.

The most significant constraint to private sector participation in food security involves those constraints, inhibitors and problems related to increased investment in all agribusiness segments. Increased investment is needed in physical facilities as well as advanced technology, and this requires substantial, long-term equity capital. Specific factors that limit investment include, inter alia, the lack of access to long-term investment capital, the means to identify investment opportunities and the skills needed to evaluate the viability of those identified. This is true in Kenya, Tanzania and Uganda, however, the problems are more acute in Tanzania and Uganda.

Tanzania and Uganda are in a transitional phase moving from parastatal and monopoly, or near monopoly, control of agribusiness to private sector ownership and management. There are numerous constraints to the ultimate privatization of these former parastatals and therefore the effective participation of the private sector. Fortunately, the government of Kenya is now entering the final stage of completing the privatization of one of its largest remaining parastatals.

The problems involved in privatization of existing parastatal facilities include establishing a fair, realistic market value for the facilities, a value accepted by the government and by the private sector entrepreneurs. This is a difficult problem, and establishing value will require considerable effort. There is also a human element, and that involves the future of the employees of the parastatal, since in all probability, considerably less labor and management will be required when privatization is accomplished. The legal and administrative steps necessary to accomplish privatization are often ambiguous and sometimes contradictory. Therefore, it is necessary, particularly in Tanzania and Uganda, to precisely determine, hopefully via a private sector with government dialog, the steps and actions to be taken by both the government and the private sector in completing the privatization process.

Most of the constraints to the full involvement of the private sector in food security enhancement can be overcome by effective cooperation between the private sector and governmental agencies. The constraints related to increased investment, especially cross-border investment, can be overcome by dialogue, knowledge and genuine cooperation with all concerned with the end result of effective and practical privatization policies and procedures.

Succinctly, private sector participation in food security enhancement depends on the full development and the efficient operation of all the private sector firms engaged in agriculture and agricultural businesses. The good news is the optimism that exists in all three countries for developing the private sector and moving away from government involvement.

## **2.5 How the Private Sector Can Help Alleviate Food Insecurity**

**Tanzania** The development of the SEFARMS Association is an outstanding example of the private sector developing strategies and actions that help alleviate food security. SEFARMS is organized to assist women in developing and operating commercial farming enterprises which, per se, reduces food insecurity. Donor support, and/or private sector support from large established firms, to SEFARMS would undoubtedly result in significant improvement in food security throughout Tanzania. The SEFARMS program should be expanded ten-fold to assist member women farmers in poultry, piggery, vegetable, cereal and dairy farming.



The private sector must, as soon as possible, assist with the transformation of the Tanzania Fertilizer Company (TFC) into a commercial organization that can distribute fertilizer throughout Tanzania. The TFC has been scheduled for privatization, and the private sector, perhaps through collective action, must take the initiative in realizing this objective. The increased utilization of fertilizer through private sector efforts will certainly help alleviate food insecurity.

The Tanzanian National Chamber of Commerce, Industry and Agriculture, is an institution that can represent small and medium sized agribusinesses in working with the involved government agencies to develop fully their collective capabilities. The Chamber could and should serve as a provider of information to the private sector on all aspects of commodity production and distribution.

Discussions with grain millers in Tanzania focused on solving the many problems that millers face in dealing with inconsistent government policy and other institutional restraints. A fully developed milling industry with supporting storage facilities would significantly alleviate food insecurity problems in Tanzania. Millers interviewed indicated that they were working with several Tanzanian banks in the hopes of securing the supporting finance necessary to expand their present operations.

USAID/Tanzania instituted a rural transport and infrastructure activity that has significantly increased the quality of the rural roads in many areas. The private sector should assist with administrative and financing support for the National Roads Fund to provide continuing maintenance for these all important arteries. USAID has also established a private enterprise fund involving private banks to provide venture capital for developing and expanding private enterprises. The Tanzanian private sector needs to avail itself of the opportunities provided by this activity. Only one of the private firms interviewed was aware of these opportunities.

The private sector in Tanzania should take the leadership in establishing a national forum such as the Uganda National Forum. This forum, in cooperation with the Chamber, would provide an excellent vehicle for dialogue with the government ministries and agencies in eliminating unfavorable regulatory policies, customs corruption and other government policies and inhibitors that restrict the development of the private sector. Such a program would be a significant help in alleviating food insecurity.

Succinctly, the private sector in Tanzania must develop collective action and strategies to eliminate the many restrictions that inhibit the development of a viable agricultural and agribusiness sector.

This type of collective initiative can help alleviate food insecurity and accelerate economic development. An example of the type of action required is that of the Policy Reform Agenda. Unfortunately, that program encountered considerable opposition from the vested parastatal interests in Tanzania. The vested interest of the remaining parastatals must ultimately be eliminated so that a fully developed private sector can assume its rightful role in alleviating food insecurity.

**Kenya** Performing further (value added) processing and forward contracting are two important ways the private sector can help alleviate food insecurity. The former should result in real producer price increases in the long run for the raw products in most demand since processor margins will be enhanced. The latter can provide a source of inputs for those who could not obtain credit and are therefore not able to acquire needed inputs. The combination of the two can lead producers to adopt higher yielding production and post-harvest technologies -- which in turn increases agricultural productivity.

The House of Manji (HoM), one of the largest food processors in the country, is a major player in the development of these activities, particularly in the soybean market. Currently Kenya produces about just over 1,000 tons of soybeans.



while HoM has capacity to process twenty thousand tons. HoM is in the process of collaborating with KARI, the GTZ, JICA, and FAO on technology development, smallholder production, and primary processing and marketing of soy products to more fully utilize their capacity. At the same time, it is exploring, in cooperation with the International Finance Corporation (IFC), the possibility of developing a venture capital structure that will allow the establishment of agribusinesses interested in soybean production and processing. The HoM has pledged to purchase up to 20,000 tons of soybeans to support the infant industry.

The role of small- and medium-sized agribusinesses in enhancing Kenyan food security requires special consideration. SMEs are the sector most likely to add value to agricultural production in rural locations through agro-processing. Their contribution is currently limited by infrastructural constraints and effective rural demand for their products due to the low incomes prevailing in the markets they serve.

Currently SMEs and microenterprises provide the bulk of employment in Kenya, and are an important source of new jobs. They are also the main employer of women since, these enterprises present fewer barriers to entry. The possibilities for increasing women's participation in SME agribusinesses are higher than in any other sector. Encouraging female participation in agribusiness is where the private sector, NGOs, and government (through favorable policies) can achieve success.

In addition to increasing on-farm agricultural productivity, and off-farm agribusiness productivity, the increased presence of agribusiness SMEs in rural areas will enhance food security by improving the production, preservation and marketing of food in rural areas.

Traditionally, the private sector has played a limited and yet important role in technology dissemination in Kenya. Although most of the maize breeds are developed by the public sector (KARI), their multiplication and distribution is largely carried out by the Kenya Seed Company. There is significant scope for private sector development of new seed varieties, particularly hybrids. Kenya, as a founding member of WTO, is bound by agreements to safeguard intellectual property rights of breeder and seed developers.

**Uganda Market Information** Uganda, like Tanzania, suffers from the lack of timely and correct business information on prices, market developments, supply and demand and technology, which in turn constrains food security enhancement. There are several organizations in Uganda that are involved in providing business information. However, it is recommended that a single private sector or private/public joint venture organization be given the mandate and resources to compile and disseminate this information to the private sector. An example of an entity that could provide this service is the Private Sector Foundation (PSF). An effective single organization should be more efficient and would provide a means of coordinating donor financial and technical support.

The PSF is located in Kampala and is composed of 17 private business organizations located throughout Uganda, but principally in the greater Kampala area. The Foundation holds regular meetings for all members and conducts ongoing dialogue with all members. The members of the Foundation are concerned with business tax matters, government regulations affecting import and export practices and other related matters. The Foundation serves as a spokesman for the private sector vis-a-vis the relevant Ugandan government agencies. The Uganda Manufacturers Association (UMA), which is closely associated with the PSF, is involved with Consultancy and Information Services Limited and seeks to advance the objectives of the manufacturing industry, including gathering and analyzing market information. Therefore, the PSF is a good candidate for a market and technical information collection and dissemination entity.

**Access to Finance** All but the largest agriculturally-related firms in Uganda have very limited access to either long-term investment capital or short-term funding for working capital. USAID and others are supporting selected financing institutions, and there is reasonable cause to expect conditions to improve in the future. It is recommended that private



sector agribusiness firms work with the Uganda Investment Authority, the Private Sector Foundation and the banks and financial institutions to develop workable financial programs, especially for short-term credit, that will reduce risk for financial institutions lending to agriculture and agribusiness while at the same time increasing access to finance for these firms

**Applying for Financing** Another problem the private sector can solve is to provide education to entrepreneurs on, and assistance for the proper preparation of, "bankable" business plans, including real time cash flow projections, income statements and break-even analysis. This educational process could be done through the Private Sector Foundation offering seminars and workshops on the preparation of business plans. Well-developed and presented business plans will open banking doors that now appear closed. The Private Sector Office of REDSO/ESA has the ability to provide leadership for such a program.

**Enabling Environment** Collective action is the best approach to correcting the unfavorable aspects of government regulations, tax policy and poor infrastructure like rural roads and communications. It is recommended that organizations such as the Private Sector Foundation and the Uganda Investment Authority together establish a permanent private sector commission to maintain a **constant dialogue** with the proper government agencies to address these constraints.

Private sector managers interviewed stated that USAID/Uganda has been a positive force for improving the environment for business development in Uganda. These individuals expressed appreciation for the Mission's contribution. Also, the Uganda government under President Museveni is very supportive of private sector development. Therefore, donor and government support for enabling environment enhancement is available.

**The Uganda Presidential Forum** The Presidential Forum on Strategic Management for Investment Promotion and Export Growth was established in 1992 under the aegis of the Implementing Policy Change project supported by USAID/Uganda. The purpose of the Forum is to focus and energize action on the various government policies, programs and initiatives in the area of private investment and export development. The Forum's goal is to promote a strategic approach, which involves the participation of the private and public sectors, for more effective implementation of national policies and initiatives affecting the business environment. The Forum conducts regularly scheduled meetings. These meetings bring together senior members of the government of Uganda and leading entrepreneurs from the private sector.

The success of the Forum in enhancing the private sector related enabling environment can be attributed to the leadership from the Uganda Manufacturers Association and a strong commitment from the President of Uganda. Equally important is the dedication by the individual members to maintaining an open policy dialogue and a commitment to creating a better future for Uganda.

The Uganda Manufacturers Association, under the Presidential Forum initiative, has tried to bridge the gap between public and private sectors on policy reform through its collaboration with the Private Sector Foundation. This has helped promote, protect and coordinate interests of industrialists and other private sector actors in the economic development of Uganda.

There is a need to emphasize the private sector's role in food security in one of the Working Groups at the next Presidential Forum meeting. Uganda's Private Sector Foundation would be one agency that could advance this cause. While stressing investment promotion and export growth, the activities of the Forum nevertheless advance the cause of private sector involvement in food security by addressing the enabling environment constraints that limit private sector participation in food security enhancement.

## GHA Region

### Investment Information

Many in the African private sector see a potential but critical new role for foreign donors as facilitators and distributors of information on investment opportunities in food production, processing and distribution in the GHA. These opportunities will have to be described in business and commercial terms conducive to attracting and retaining investment in transactions that enhance food security. By publicizing hard to access regional commercial opportunities to African business people, donors would help provide a valuable impetus for cross border African investment in GHAI priorities that include, inter alia, a more rational and efficient movement of food within and across borders. By provision of such an information service, the donors and host governments will begin to dispel the belief many hold in the African private sector - that donors and host governments will continue doing business as usual by disregarding the obvious primacy of the African private sector in growing, processing and distributing food. Donors could provide a very important service for the market intelligence hungry African private sector via distribution, and perhaps analysis, of cross-border market and investment opportunities in agribusiness that spring from the project evaluations, trip reports, and myriad of other documents that USAID and other donors produce on relevant topics.

### Policy Enhancement

The private sector clearly recognizes that sustained growth in commercial activities will support increased production, processing and cross-border distribution of food in the GHA region requires more than a higher rate of investment. Sustained growth requires unleashing markets in the region by improving the policy environment as well as improving the crumbling state of transportation and communication infrastructure in the region. That view supports the vital policy research and enhancement work done by USAID Missions and REDSO/ESA in the GHA.

As a means of supporting policy enhancement the establishment and ongoing functioning in Kenya and Tanzania of an activity similar to the National Forum now operating in Uganda would be highly desirable. The National Forum brings together representatives of the private sector, senior officials of the Government of Uganda and the President. The private sector representatives present the problems that they face, and discuss with the government officials suitable solutions. In subsequent meetings that are held approximately 90 days after the initial discussions, the President expects to receive answers and explanations of the actions taken to solve the problems.

The private sector core teams in Tanzania and Kenya should review the operation and success of the Uganda National Forum and investigate ways in which a similar enabling environment enhancing mechanism can be developed in their countries. It would also be useful to investigate the possibility of a GHA wide entity modeled after the Uganda National Forum. IGAD is likely the most logical entity to assess and, if found viable, develop this regional forum. The focus of the regional forum should be on those enabling environment enhancements needed to increase the role of the private sector in food security enhancement in the GHA.

### Role of the Private Sector

The African private sector is unanimous in its many public and private declarations that it must take the lead role in the formulation of strategies for involving the private sector in food security enhancement. Many in the African business community see donors and governments in the region establishing a welfare system, via traditional food security strategies, that is humane but otherwise deleterious to the expansion of the African agribusiness sector.

Government and donors rarely understand the dynamics of business and investment decisions necessary to assure private sector "ownership" of food security. Therefore, donor and host government policies that exclude the private sector from



a leadership role in food security are doomed to failure. Since the African private sector is much more efficient and productive than governments in the cultivation, processing, and distribution of food, why are they often given less than a leadership role in food security enhancement?

As one veteran former USAID Mission Director in the region stated " if I were to do the work of 70's and 80's over again, I would certainly focus more on enhancing and facilitating the role of the private sector. " Without a dramatic increase in private investment and trade (including a freer intra-regional trade system) in this area, it will be difficult to assure food security in the future.

Prior to the liberalization era beginning in the early 1990's (in the region ) perhaps there had existed a valid argument why host governments, donors and NGOs had taken the lead on issues concerning food security - the absence of a dynamic private sector and institutions and associations of agribusiness advocacy during the early years of African nation building. Presently, however, the situation has dramatically changed for the better. The African private sector is taking the lead in the establishment of numerous business advocacy associations. The most recent "watchdog", overseeing what the three East Africa Governments' policies are being bestowed on the private sector, is the East African Cooperation Business Council (EACBC), to be headquartered in Arusha. Thus, the African private sector is creating the institutions and advocacy networks necessary for the concentration of opinion and advocacy so necessary to the debate on food security.

## **2.6 Specific Opportunities for the Private Sector to Help Alleviate Food Insecurity**

The following actions are recommended as those with the most immediate potential to have a positive impact on the role of the private sector in enhancing food security in the countries visited. They include specific investment opportunities, two in Uganda and one in Tanzania, and two strategy development activities. The strategy development activities proposed would have considerable positive impact if implemented in any and all countries of the Greater Horn.

### **2.6.1 Uganda Privatizations**

Private sector support for and participation in the immediate privatization of the Produce Marketing Board's grain silos located in Jinja is the highest priority. Also, the Uganda Maize Milling facility must be placed in private hands. Details on these two investment opportunities can be found in the Uganda chapter (5.6.2) of this report. Consultants must be employed to identify each step needed to move these entities from parastatal to much needed private ownership and operation.

This is a high priority need and one that would have many benefits for regional food security since these facilities are currently under utilized and financed. The resulting firms would be private sector managed, and grain marketing and maize milling in Uganda would be significantly enhanced. There is an urgent need for serious consultations between the Government of Uganda and the private sector firm(s) that have expressed strong interest in acquiring these facilities.

### **2.6.2 The Tanzania Fertilizer Company**

TFC is a parastatal that is scheduled for privatization by the GoT, but is in limbo. TFC is now operating without government financing for working capital, including the purchase and maintenance of inventory. Many employees have been discharged and present management is unsure of their and the company's future. The importance of TFC to the Tanzania agricultural production system cannot be overstated. TFC has a complete warehouse and distribution system.

in all the important production areas of Tanzania. Private sector involvement in fertilizer distribution in Tanzania is at present very limited and the privatization of TFC would dramatically increase private participation

It is recommended that consultants be engaged to analyze the viability and scope for private investors to invest in TFC. Recommendations should be provided on the most appropriate strategy for this to take place. Details on TFC can be found in the chapter on Tanzania (3.5.3)

### **2.6.3 Develop Strategies to Commercialize Technology**

A number of very innovative technologies have been developed that, if fully commercialized, could contribute significantly to enhancing food security in the region. These are identified and discussed in more detail later in this report. They include the finalization and distribution of a) a farm to market vehicle developed by Kenya Vehicle Manufacturers, b) a small scale grain drier being developed at the Kawanda Research Station in Uganda, c) an oil press and small irrigation pump developed by APPROTEC Kenya, and d) work with the General Manager of the Chemagro fertilizer project in Kenya to develop an input supplies distribution system in rural Kenya.

It is recommended that institutions, organizations and firms interested in acting as market agents and distributors for these technologies be identified by appropriate local entities, e.g., the Private Sector Foundation in Uganda and the House of Manji Foundation in Kenya, and strategies developed on appropriate ways to distribute and achieve utilization of the technologies. Technical assistance may need to be provided to both the developing and receiving firms on the utilization and marketing of the technology. In the long term it is envisioned that the private sector will continue to develop efficient systems to design, manufacture and distribute appropriate technologies, but this needs the ongoing support and cooperation of local governments and donors.

An investigation into how this can best be accomplished is needed. The private sector is in by far the best position to determine agricultural and agribusiness technology development needs and the practicality of alternative means of fulfilling these needs. However, local government institutions and donors can make a major contribution to adapting, or in some cases developing, these technologies.

### **2.6.4 Develop a Comprehensive Private Sector Involvement Strategy**

This report has identified a number of specific areas for possible private sector involvement in food security enhancement. There is a need, however, to further develop and crystallize these ideas into a clear strategy and plan of action that the private sector would lead and support. The strategy would incorporate the views and activities of a number of other major donors in the region, senior government officials, and the World Bank, International Finance Corporation, and the World Food Program among others. It is recommended that a regional firm be hired to facilitate this strategy with the relevant private and public sector players. The strategy will then be shared with a broader grouping of private sector participants at the regional Private Sector Food Security conference. It is recommended that the REDSO/ESA Private Sector Officer oversee this activity.

## **2.7 Companies and Individuals Interested in Participating in Food Security Enhancement**

The following specific companies and individuals have expressed an interest in participating in private sector food security enhancement. There is a great deal of enthusiasm for this initiative. Each of the firms and individuals named below, plus all those individuals interviewed, should be informed about the present and future activities related to this initiative and invited to the November Private Sector Food Security Conference.



### Tanzania

Ketan Patel, Export Trading Company, Ltd  
Dharampal Aggarwal, Managing Director, Coast Millers Ltd  
Azim Dewji/Mohammed Dewji, TradeCo Oil Industries Ltd  
Emmanuel R. Makubo, Managing Director, E R. Milling Company Ltd  
Raum J K Ringo, Marketing Manager, Tanzania Fertilizer Company Ltd

### Kenya

Amin Gwaderi, House of Manji Foundation  
David Percival, Managing Director, Kenya Vehicle Manufacturers Ltd  
Henry Ogola, Managing Director, Chem-agro  
Nick Moon, Managing Director/Martin J Fisher, Ph D , Technical Director, APPROTEC  
Frida M Muya, Export Manager, Kibwezi Growers and Exporters Limited

### Uganda

Nm John Magnay, General Manager (Owner), Magric Ltd  
Alykhan Karmali, Executive Director, Mukwano Industries (Uganda) Ltd  
Okela Oceru, Executive Director, Lira Millers Ltd  
Dr Robert R. Kawuma, Sekalala Enterprises Ltd  
Tom Opiio-Oming/Karim Somani, Chief Executive Officer, CEI  
Dr U Acasico, Post-harvest Program-Kawanda Research Station  
(To work with the private sector to develop grain drying facilities )

## 2 8 The ESABO Conference

The May 14-15, 1996 Eastern and Southern Africa Business Organization (ESABO) Regional Integration Conference held in Nairobi, Kenya, launched the GHAI effort, including this activity, to increase the involvement of the GHA private sector in food security enhancement. Businessmen and other ESABO conference participants urged the governments of countries in East and Southern Africa to rethink their food security policies. In particular their rules and regulations on food self-sufficiency, domestic and regional trade in food commodities, and the role of the private sector as the main partner in achieving lasting food security.

Conference participants noted that regional governments have in the past pursued a rather limited food security policy, one in which the countries tried to grow all its food, kept food prices low by removing the so-called exploitative middlemen and replacing them with government boards, and constructing national and regional stores for strategic grain reserves.

Despite the pursuit of public sector managed food self-sufficiency strategies in the past two decades, the region continues to suffer periodically from serious food insecurity. The reasons for regional governments' failure to achieve lasting food security for all their people could be attributed to a less than comprehensive understanding of what food security entails. ESABO conference participants and presenters agreed that food security is more than having the national stores full of grain. It is more than having sufficient availability of food nationally or regionally. It is about all people having access all the time to sufficient food for a healthy life.

Other key food security enhancement recommendations from the ESABO conference were

- 1 The role of IGAD in information gathering research, etc , in the region and as a leader in food security matters is recognized IGAD should be expanded to cover all countries of the ESABO region
- 2 Encourage partnerships between IGAD and the private sector to gather and distribute food security information so as to encourage food surplus countries to trade with food deficient countries and stimulate informed investment decisions in the area of food security
- 3 Business organizations, including ESABO, should be strengthened and harmonized in order to be more focused on enhancing the role of the private sector in food security issues, particularly in alleviation of constraints preventing the private sector from participating fully
- 4 The private sector should develop effective channels to extend credit using successful models such as
  - those in Eritrea where people feel they have a social obligation to repay,
  - mobile banks in order to reach more people e g , as in Uganda, and
  - the Zambian case of channeling credit through the middle levels of the private sector
- 5 The private sector should encourage linkages between large companies and small producers, e g , through guaranteed purchase of output and/or credit purchase programs
- 6 Encourage value adding via food processing by adopting new processing technologies, e g , staple foods to be consumed in more ways than is the case in most GHA countries This will help increase production, employment and linkages
- 7 A clearing house of food security information should be set up which will encourage and facilitate cross border trade, and also enable the private sector to understand what government, donors and intergovernmental agencies are doing together or separately
- 8 Donor food intervention should coordinate with the local private sector, e g , through joint tendering, to stop distortion of market signals

## 2.9 Kenya Private Sector Core Group

Under the aegis of the REDSO/ESA private sector office, a meeting was conducted in July of 1996 with the Kenya Private Sector Core Team The agenda for that meeting is shown in Appendix A

The following key issues provided the frame of reference for the Kenya Private Sector Core Team meeting

- 1 Agricultural productivity growth must exceed the population growth rate if sustained economic growth and food security is to be achieved Post-harvest losses must be reduced, especially losses of grain, fresh fruits and vegetables, and dairy products What strategies can the private sector promote to increase investment in the processing of agricultural output, especially processing, protection and storage that reduces post-harvest losses?
- 2 What strategies are required to enable the private sector, especially SMEs, to identify and gain access to the vast resources of capital available both locally and internationally?



- 3 What strategies are required to encourage linkages between large companies and small producers, e.g., through guaranteed purchase of output or credit purchase schemes?
- 4 What strategies are required for the private sector to invest in new technologies being developed with NGO's and appropriate technology specialists?
- 5 How can linkages be established between donor organizations such as IGAD, USAID, WFP and the private sector, so that sound marketing conditions can be encouraged and the private sector informed of donor interventions?
- 6 How can private sector associations and consulting firms in the region be utilized to provide relevant services to package and promote viable projects, as well as provide access to market information, technical advice and finance?
- 7 What strategies are required to sensitize governments and donors on the role the private sector can play in enhancing food security?

A highlight of the meeting was a verbal commitment by the House of Manji to assume the leadership role in establishing an informal agribusiness investment group that would identify investment opportunities and provide financing for those projects with merit. The emphasis on investment was well received by all present, for expanded investment in agribusiness is the key to increasing the role of the private sector in enhancing food security. Cross-border agribusiness investment was also identified as a goal that must be developed to increase food security in the entire region.

Participants in the Kenya Private Sector Core Group meeting indicated five areas where increased private investment is especially necessary. They are (1) agribusinesses being privatized, (2) food processing/value added functions, (3) the dissemination of new technologies, (4) commodities storage facilities, and (5) commercial agriculture. The strategy advanced by the House of Manji Foundation is an excellent example of a means to overcome the constraints and problems associated with increased agribusiness investment.

## 2.10 Next Steps

The remarkable leadership of the REDSO/ESA Private Sector Office, as the driving force in the ESABO regional conference held in Nairobi, May 14-15, demands that REDSO/ESA must remain as the coordinating institution until such time as an African-led and African-supported initiative is firmly established as a permanent organization. With the African private sector support shown to date, there is every reason to expect a successful endeavor if a firm foundation is built.

During the conduct of private sector firm interviews in the three participating countries, a major effort was made to identify individual firm managers and owners willing to serve on Private Sector Food Security Core Teams. A team was composed in each country, and all three teams will cooperate in advancing the cause of food security in the GHA. The names and addresses of those individuals identified and willing to participate on a Core Team were provided to the REDSO/ESA office in Nairobi, and appear in Appendix A. The expression of interest on the part of private sector leaders in all countries regarding a Private Sector Core Teams meeting was strong and complete. Hopefully, other countries on the Horn of Africa will participate in the future.

### Follow-up Conference

Therefore, a conference is planned under the aegis of REDSO/ESA with the Private Sector Core Teams from Uganda, Tanzania and Kenya participating. In cooperation with leaders from the Core Teams, REDSO will develop an agenda for that meeting. The logistic arrangements should be completed and all invitations issued by REDSO. The objectives of this conference will be to allow the Core Teams to identify, discuss and evaluate constraints they face in fully developing their private enterprises. The more rapid development of private sector enterprises in Kenya, Uganda and Tanzania, will lead directly to food security enhancement in the GHA.

The main objective of the conference will be to determine the strategies and opportunities for stimulating agribusiness investment, because increased agribusiness investment is the ultimate key to increased food security.

### Sustainability

The momentum that has been generated by this activity must be preserved and formal direction given to the objectives of the project. To insure sustainability, a secretariat or a coordinating organization must be established and operated for approximately a two-year period. The purpose of the secretariat will be to demonstrate the viability and the long-run value of this endeavor. After the two-year period, it is envisioned that the central organization will be totally funded and directed by the African participants. A limited budget for this two-year period should be sought from one or more donor institutions with GHAI Washington and REDSO/ESA taking the lead position.

### IGAD

A dialogue should be established with IGAD to determine if that institution is both interested in and capable of assuming a leadership role in private sector food security enhancement. Is it possible that some IGAD funds might be available to support, or partially support, the creation and ongoing activities of a central secretariat?

Ethiopia, Eritrea and Somalia Land have not participated in this activity. Different reasons have been advanced for their lack of participation. IGAD and the GHAI should address this issue and determine how additional countries can be effectively and safely (for field researchers) included in the activity and in the involvement of the private sector in food security enhancement.

The outstanding leadership provided by REDSO/ESA has created this opportunity for regional cooperation in private sector food security, and REDSO's participation is essential to the long-run success of transferring the objectives of this activity to the private sector in the GHA.

### Broadening the Base

While work in Kenya, Uganda and Tanzania offered useful insights into how the private sector can become actively involved in food security enhancement, these three countries do not have the magnitude of food security problem as do others in the GHA. For this activity to positively impact the GHA wide food security challenge, an assessment must be made of how the lessons learned and the implications to GHAI and USAID Missions SOs and Results Packages can be extended to countries at the heart of the GHA food security challenge. This will require work in Ethiopia, Eritrea and Somali Land.

### 3 0 TANZANIA

This chapter reports on the findings of two weeks of primary research in Tanzania and focuses on specific private sector, food security enhancing, agribusiness investment opportunities

#### 3 1 Current Contribution of the Private Sector to Food Security Enhancement

On average, Tanzania produces 90 percent the amount of food needed to feed its population, despite its vulnerability to drought. The national food security situation is marginally satisfactory on average, although there are sharp differences between regions. During periods of severe drought, such as in 1993/4, unlike Zambia and Zimbabwe which were severely affected, Tanzania experienced only pockets of severe food insecurity which were cushioned by internal distribution of food and modest food aid imports. The problems of food insecurity and hunger are more related to a lack of access i.e. low purchasing power rather than a chronic lack of supply.

Primary research completed for this activity found that, despite a history of extensive government control, the private sector is actively involved in a variety of agribusiness activities in Tanzania, many that directly contribute to food security. There are a number of large and medium-sized maize and wheat millers involved in storage, importation and distribution of food. The larger millers have invested a considerable amount in storage capacity. One miller for example is in the final stages of a project to construct 17,000 MT of storage capacity. There are also private traders who have invested in nationwide distribution and storage networks for cereals, particularly maize. One firm is even hedging its purchases of maize on the Chicago Board of Exchange. There are also a number of small firms involved in fertilizer and seed distribution, but their geographic coverage is limited. Although there are a few firms involved in food processing, there is considerable scope for expansion in this area.

#### 3 2 Prioritization of Constraints

The constraints that production agriculture and the private sector in Tanzania face, which in turn impede the contribution of both sectors to enhancing food security, are prioritized in the table below on the basis of the anticipated positive impact from their alleviation.

##### 3 2 1 Constraints to Increased Agricultural Production

CONSTRAINT	PRIORITIZATION/RANK
Rural Transportation Infrastructure	1
Limited Use of Inputs	2
Access to Formal Credit	2
Access to Appropriate Technology	2
Limited Agricultural Research/Extension	3
Land Tenure	3

Source: Field Research/Interviews



Research conducted as a part of this activity indicates that improving rural transportation infrastructure, particularly secondary feeder roads, will have the largest impact on agricultural production, and a substantial impact on improved marketing efficiency. At present, since the cost of transportation is so high, it is not economical for the private sector to transport grain from or fertilizer to many areas, or for farmers to use fertilizer that is priced to cover all transport costs.

Increased access to inputs - fertilizer and improved seed - would also significantly impact food production. The high cost of fertilizer, due to a significant depreciation of the Tanzania shilling and removal of the government subsidy, is a major constraint currently facing farmers. Fertilizer consumption has declined by up to 40 percent in the past 5 years. The decline has been particularly acute in food crop production where most farmer's returns are not sufficient to justify the investment in fertilizer. The high cost of fertilizer is exacerbated by the removal of most government directed credit schemes for farmers. The private sector has been unable to take on this role due to the high risks involved. Even when farmers can afford fertilizer, they may have difficulty accessing it in certain areas. Since liberalization of fertilizer marketing, 5-6 major importers of fertilizer have established themselves in addition to the Tanzania Fertilizer Company (TFC) - a government parastatal currently operating on commercial principles. These private companies operate mainly in Dar es Salaam, and have so far not been providing fertilizer to all parts of the country, largely due to the poor infrastructure and their lack of finance to invest in a large distribution network.

Use of hybrid seed for maize production is also very limited in Tanzania. In Kenya for example, annual consumption of hybrid seed is approximately 20,000 MT. In Tanzania it is only 1,200 MT. Increased consumption of appropriate, localized hybrid seeds would significantly increase yields.

Agricultural production techniques are very rudimentary in Tanzania. There is a need to identify, promote and disseminate appropriate production technologies that are cost effective and able to increase agricultural productivity and yield per hectare, and therefore returns to farmers.

Finally, increasing access to credit would facilitate purchase of inputs and technology that will improve agricultural production. This will not be successful, however if other constraints, particularly poor infrastructure, are not removed. Improved infrastructure and therefore lower marketing costs could lead to higher producer prices which would create the market opportunities that will justify producers borrowing to purchase inputs that would increase yields and production.

### 3.2.2 Ranking of Constraints to the Development of the Private Sector by Size Firm

Constraint	Small	Medium	Large
Weak Physical Infrastructure	1	1	1
Inadequate Availability of Formal Credit	1	1	2
Low Consumer Income/Weak Purchasing Power	2	2	2
Shortage of Business Information	2	2	3
Limited Business/Technical Skills	2	2	3
Political Risk & Uncertainty	3	3	1
Unfavorable Government Regulations	3	3	2

Source: Field Research/Interviews

As is evident from the above table, the prioritization of constraints facing small firms and medium-sized firms are the same. The five main constraints for these firms in terms of priority are (i) weak infrastructure, (ii) inadequate access to formal credit, (iii) low consumer incomes, (iv) lack of business information and (v) limited business skills. Both male- and female-led firms operate under similar constraints.

For large firms, which includes international companies, the priority constraints are slightly different: (i) weak infrastructure, (ii) political risk and uncertainty, (iii) unfavorable regulatory environment, (iv) low consumer incomes and (v) access to formal credit at an affordable cost.

A major constraint facing business is the attitude of suspicion towards private business that still prevails as a result of over twenty years of state domination. This attitude is particularly strong against foreigners and Asian business people and is manifested in numerous ways including bureaucratic delays, harassment by public officials and policy reversals. Although changing slowly, this attitude problem acts as a considerable deterrent towards large-scale private sector agribusiness investment.

### 3.3 Priority Constraints the Private Sector Can Help Alleviate

Presented below are the priority constraints that the private sector can help alleviate, specifically:

- (i) Access to formal finance,
- (ii) Limited business management skills,
- (iii) Shortage of business information,
- (iv) Political risk and uncertainty, and
- (v) Unfavorable government regulatory environment,

The next section (3.4) presents examples of how the private sector might help alleviate these constraints.

It is important to note that the private sector in Tanzania, although faced with a myriad of constraints, is active and in many instances thriving. Many businesses have found innovative ways of overcoming the most serious constraints affecting them. There is a need to formally identify these innovative solutions and attempt to replicate them where ever possible. Incorporated in the suggestions below are some of the innovative schemes already being carried out by the private sector, even if on a limited scale.

#### 3.3.1 Access to Finance

Access to finance constraints vary by size firm.

##### Large Firms

Due to the undeveloped banking system and the perceived risk of agricultural lending, large agribusiness firms in Tanzania, except for multinationals and a few local firms, have difficulty accessing working and investment capital. Where they do have access, the cost of capital is prohibitive. Considerable efforts are being made to strengthen and deepen Tanzanian financial markets. As the number of private banks continues to increase, credit constraints for large firms will diminish, particularly if the government remains committed to maintaining macro-economic stability.

Although lack of access to finance to invest in storage facilities or inventory building working capital is a major problem, researchers did find firms in Tanzania that have invested considerable resources in storage capacity. A major wheat and maize miller is currently constructing a large wheat silo with a capacity of 17,000 MT. Funds used came



examining the feasibility of setting up a venture capital fund that would be specifically focused on small and medium-sized enterprises. **The private sector should be encouraged and supported to set up a similar fund in Tanzania, possibly with assistance from donor organizations.** Improved access to new technology is the first step in learning how to effectively utilize new technology.

### 3 3 3 Shortage of Business Information

In Tanzania access to information on prices, markets, production trends, technologies, and the application of these technologies is quite limited. The food security department at the Ministry of Agriculture provides some information on market and production trends with support from the USAID Famine Early Warning System, but has very minimal coverage. The information only covers domestic markets, and its dissemination to the private sector is poor. There is limited information on international market prices and trends available in Tanzania.

In order to cope with this lack of information, the private sector is utilizing a combination of "learning by doing," and using existing national and international networks. Last year there was a surplus of maize in Tanzania and a number of small traders entered into agreements to export maize to various countries in the region - Zambia, Zaire and Malawi. According to one respondent, a number of them, not aware of the prevailing market prices in the region and costs involved, negotiated very low prices. They then found it very difficult to meet their orders and make a profit.

In contrast, the larger private firms interviewed appear to have all the latest information on regional market trends at their fingertips. One large trader is even hedging his purchases of maize on the Chicago Board of Exchange. The firm has a large storage and distribution network in the country and buys 65,000 MT/year of maize which is a quantity similar to the buffer stock held by the government's food security department. The firm is able to pay farmers a higher price due to their access to export markets.

### 3 3 4 Unfavorable Regulatory Environment

Discussions with the private sector identified a number of factors that contribute to political risk and uncertainty in Tanzania. These include (i) an unclear policy environment, (ii) bureaucratic inefficiencies and harassment, (iii) a hostile attitude towards foreign investment and (iv) an inadequate legal dispute resolution system.

While on paper the policy regime appears favorable, in practice there are many internal obstacles that hinder investment. One investor complained, for example, of having extreme difficulty obtaining work permits for certain foreign employees, even though similarly qualified personnel were not available in Tanzania. Only after appeals were made at the highest level were the permits granted. Other investors are interested in entering large-scale palm oil production, but are wary due to an unclear policy environment and bureaucracy. **There is considerable scope for Tanzania to become a large food exporter in the region if foreigners are given the opportunity to invest in large-scale commercial agricultural production.** At present this process is quite complicated.

The Government of Tanzania has taken strides to remove some of these impediments, and it should be noted that the general investment climate has improved over the past five years. There is ample scope, however, for the private sector to work closely with the Government to identify the most serious impediments to private agribusiness investment and develop ways to remove these impediments. In particular, the general negative attitude towards investors, and particularly foreign and Asian investors, at the middle bureaucratic level can be greatly improved if the Government comes out strongly in support of foreign investment and enforces sanctions against those that harass investors, particularly at the immigration and customs departments.

In addition, the establishment of a stock exchange will allow for broader Tanzanian participation in the privatization process and help to allay fears of foreign domination. Successful privatization cases involving foreign investors such as the Tanzanian Breweries should also be publicized to help allay negative attitudes towards foreign investment.

This type of public/private sector dialogue should be done and is being done through private sector associations. There is a need, however, for additional support to be given to these associations to allow them to be more specific in their research and presentations to government. Support for example, could be given to the Confederation of Tanzanian Industries to research and identify specific bureaucratic and regulatory constraints affecting the agribusiness subsectors with the greatest investment potential. This will provide the analytical base for specific representations to government.

### **3.4 Constraints to Private Sector Participation in Food Security Enhancement and How These Can Be Overcome**

Based on a consensus of interviewees, following is a prioritized listing of the constraints to private sector participation in food security enhancement:

- 1) Lack of private sector agribusiness experience due to the government's historical dominance of agribusiness and less than positive attitude toward the private sector
- 2) Lack of agribusiness, especially SME, access to and the cost of credit to implement food security enhancing activities, heavily influenced by a very weak banking system
- 3) The very limited resources (financial, time and skills) of micro and small agribusiness managers, who account for the largest number of agribusiness firms
- 4) Agribusiness managers lack of focus on and awareness of their possible role in food security enhancement, and how it is related to their longer term interests

Tanzania is in the early stage of moving from parastatal to private ownership, and the uncertainties involved in this transition are more pronounced in Tanzania than in either Uganda or Kenya. There remains, notwithstanding the liberalization policies of the government, considerable uncertainty as to the future role of the private sector. The private sector's participation in food security enhancement will ultimately depend upon the development of and access to formal financing. Large areas of Tanzania are only marginally accessible, and very large capital investment in infrastructure will be required to open much of the interior to viable agricultural production. There is an opportunity for the private sector in Tanzania to make significant gains in agricultural production and hence, enhance food security, not only for Tanzania, but for adjoining countries. But, this will require significant improvements in the enabling environment, and Government's attitude toward the private sector.

The constraint involving the dearth of formal credit can be alleviated, at least to some degree, by establishing formal dialogue between private sector firms and banking institutions, conceivably with the involvement of the Ministry of Finance. Several business enterprises that were interviewed indicated some cause for optimism as a result of meetings and discussions with banking officials. An official of one firm indicated that as the banking industry in Tanzania continued its development, access to capital would improve. At this point in Tanzania's development, most officials of the private firms interviewed were more concerned with the availability of basic working capital than with long-term investment funds.



### 3 5 Food Security Enhancement Activities Involving the Private Sector

Following are some of the general ways the private sector can help enhance food security, and specific opportunities to involve the private sector. The latter are anticipated to have a substantial positive impact on food security enhancement.

#### 3 5 1 General Approaches

Based on a consensus of interviewees, following is a prioritized listing of the ways the private sector can help enhance food security in Tanzania.

- 1) Establish linkages between local agribusiness firms and potential international investors and international suppliers willing to offer extended buyer credit for inputs
- 2) Establish programs for larger agribusinesses to guarantee loans for their smaller suppliers
- 3) Develop forward contracts between agribusiness firms and their producer suppliers which include the supply of needed inputs
- 4) Stimulate the process of privatizing state owned/controlled agribusinesses
- 5) Jointly organize and support effective agribusiness associations that establish a dialog with government
- 6) Improve the linkages with and increase subcontracting between larger and smaller agribusiness firms
- 7) Expand the availability of agribusiness technical and managerial training
- 8) Joint establishment of a venture capital fund to support technology adaptation, and especially utilization
- 9) Establish subsector association group credit schemes
- 10) Establish a jointly supported entity to help SMEs apply for credit, including the development of viable business plans
- 11) Jointly support NGOs, e.g., PRIDE Tanzania, that offer rural credit schemes
- 12) Establish a private sector owned entity to provide high demand market information
- 13) Jointly lobby for government facilitated foreign participation in export agriculture and agribusiness

#### 3 5 2 Specific Projects

In discussions with the private sector in Tanzania a number of specific project ideas were identified that will increase the role of the private sector in enhancing food security. A summary of these projects is presented below.

##### 3 5 2 1 Palm Oil Project

At present Tanzania imports approximately \$100 million worth of palm oil. It has been determined that Kigoma has exactly the same climate as that in Malaysia where large quantities of palm oil is grown. The government has initiated a 50,000 ha pilot project in the area, but thus far it has been unsuccessful due to insufficient funding. The total investment required to bring the project to fruition is \$10-\$15 million. The initial investment would be approximately \$3 million to get production going, in three years an additional \$12 million would be required to build a crushing plant and refinery. There is a railway link from Kigoma that would facilitate transportation to Dar es Salaam.

One company interviewed, TradeCo Oil Industries Ltd, would be interested in investing in the project. It has been difficult for them to identify foreign investors because the policy environment is not well defined for palm oil production, and according to one investor "they are afraid of bureaucracy and red tape."

**Benefits** The project would save the country considerable amounts of foreign exchange and contribute to significant rural employment in Tanzania

**Action** A review of the country's agricultural and foreign investment policies is needed with a view to identifying constraints to palm oil production and investment. More important, TradeCo will require assistance in packaging the investment, including identifying high-potential partners, obtaining appropriate technology and securing investment guarantees for foreign investors

### **3 5 2 2 Institution Building for Private Sector Associations**

For the private sector to become more involved in enhancing food security, there is a need to strengthen private sector associations' capacity to provide services to members. Three associations were identified where appropriate assistance would enhance their operations. They are (i) SEFARMS Association (ii) Tanzania National Chamber of Commerce, Industry and Agriculture, and (iii) the Millers Association

#### **(i) SEFARMS Association**

As mentioned earlier, SEFARMS Association was set up specifically to assist women farmers in Southern Tanzania (see summary write-up in Appendix D). If run effectively, this association could contribute considerably to increasing the incomes of females living in rural areas and enhancing food security. The model could then be replicated to other parts of the country. The association requires some technical assistance to raise funds for its commercial farming operations. Income earned through these operations will help to finance some of the other activities of the association.

#### **(ii) Tanzania National Chamber of Commerce, Industry and Agriculture (TNCCIA)**

This association is one of the oldest in Tanzania. It has a branch network throughout the country and it largely represents small and medium-sized indigenous businesses. It is these businesses that generally lack detailed information on markets and trends. It is recommended that TNCCIA be given technical assistance to develop a system that would allow it to identify food-related market information sources on prices, production levels and trends in the region and disseminate this information to members. Sources could include the Famine Early Warning System, Comesa, IGAD and potentially ESABO. The association should also be assisted to develop a program to enhance subcontracting between large and small agribusiness firms. This would include research to determine the viability of changing legislation to encourage these linkages.

#### **(iii) Millers Association**

Two millers, Coast Millers and E. R. Flour Mills, have expressed an interest in forming an association of millers. The association would deal specifically with some of the constraints currently facing millers - policy inconsistencies, poor quality standards for imports and access to finance. It is recommended that assistance be provided to the association to develop articles of association and a plan of action to ensure sustainability.

While TANEXA, the Tanzania Exporters Association, and its sub-association TANHOPE (Tanzania Horticultural Exporters Association) were not interviewed, previous AMIS II work in Tanzania indicates that donor and/or government support to one or both of these entities would assist export oriented agribusiness SMEs and stimulate agricultural production capacity expansion and agricultural/agribusiness employment (and therefore food purchasing power - access) in Tanzania.



### **3 5 2 3 Tanzania Fertilizer Company**

TFC, although a parastatal, is being run as a commercial organization with no subsidies from the government. It has the largest distribution network in the country and is currently the only organization capable of servicing farmers in many areas. TFC has continued to function during the process of liberalization, as the private sector has yet to respond fully to the liberalization of fertilizer distribution. The organization is slated for privatization, although no definite date has been given, possibly due to the Government's fear that the organization will be purchased by foreigners.

TFC could benefit from significant employee ownership if the process is correctly structured. This would allay some of the fears the Government has over foreign control of the assets. It is recommended that research be carried out to identify the possibility of soliciting private investors to take an equity position in the organization under an arrangement that would allow the present management a period of time to turn a profit. The equity would be used as working capital to help support TFC's inventory. At the end of the specified period, if present management are successful, they would be given an option to buy shares in the company.

### **3 6 The Tanzania Private Sector Core Team**

Several individuals were identified in Tanzania that have good potential to form the Core Team for Tanzania. They are listed in Appendix A. Given the earlier stage of development of the private sector in Tanzania, and the suspicion the Government has about the private sector, it is recommended that appropriate government individuals also participate on the Core Team.

Since activity time was limited in Tanzania (two weeks) and the Core Team needs to be very carefully selected and organized, no action was taken beyond identifying potential members and getting their expression of interest. However, it is believed that the proposed Core Team members from Tanzania would be willing to participate in the regional Private Sector Role in Food Security Enhancement conference and that participation should be encouraged, and if necessary, financially supported.

## 4 0 KENYA

This chapter reports on the findings of two weeks of primary research in Kenya and focuses on specific private sector food security enhancing agribusiness investment opportunities

### 4 1 Current Contribution of the Private Sector

Following above examples are indicative of the role the Kenyan private sector is playing in increasing food security

The House of Manji Foundation (sponsored by the House of Manji Ltd ) has assumed a leadership position in developing, 1) agriculturally-related business opportunities, and 2) working with small-scale agricultural producers to expand their output. For example, the Foundation has offered to be the buyer of up to 20,000 metric tons of soybeans to be produced by small-scale enterprises. The Foundation is willing and able to assist in supplying physical production inputs and requests only that technical assistance be made available from the extension service.

The Kenya Vehicle Manufacturers Ltd has developed a small, economical farm-to-market vehicle ideal for moving inputs into the rural areas and for bringing the crops produced to market. The Development Engineering Manager, with support and direction from the Managing Director, has produced several prototypes, and they should be ready for field testing in the very near future.

Appropriate Technologies for Enterprise Creation (APPROTEC) has developed an ingenious, inexpensive irrigation pump that will allow small-scale producers to efficiently irrigate their crops, thereby significantly increasing production. APPROTEC has also developed, and is marketing, an oilseed press especially designed for village use.

The Government of Kenya has taken action to privatize the Cereal Production and Marketing Board. With these facilities in private hands, and operating efficiently, food security will certainly be enhanced. More than 70 percent of maize is now marketed by the private sector due to government reforms. This has resulted in reductions in milling costs which has enabled the annual transfer of roughly \$12 million in lower maize costs to consumers.

### 4 2 Prioritization of Food Security Constraint Factors

The first and perhaps the most important constraints hindering the development of food security for Kenya is the limited amount of arable land available combined with rather high population growth. For a number of reasons crop yields have declined and will continue to do so unless major efforts are made to greatly improve production systems.

Kenya field research resulted in grouping three constraints together, i.e., low level of input utilization, availability of credit for small producers, and transportation of inputs to small farmers when those inputs are, in fact, needed. Also, transportation of produce to market is a real problem. The House of Manji Foundation, Chemagro Limited and Kenya Vehicle Manufacturers, Ltd, have all three indicated that they would be willing to take an active role in helping to address these constraints.

#### 4 2 1 Constraints to Increased Agricultural Production

CONSTRAINTS	PRIORITIZATION/RANK
Access to Formal Credit	1
Availability and Use of Inputs	1



Policy and Business Climate	2
Limited Research and Extension	2
Infrastructure	2
Land Tenure	2
NGO and Donor Activity	3
Limited Arable Land	4
Frequent Drought	4

Source Field Research/Interviews

These critical constraints to food security can be addressed in several ways. As mentioned, Kenya's agricultural productive capacity is often a factor limiting adequate food availability. This means that increased agricultural productivity is critical to achieving long-term food security.

Agricultural productivity is constrained by poor utilization of two key factors - land and labor. The principal constraints to land productivity include the quantity and quality of arable land, as well as the types and extent of productive technology used (seeds, fertilizers, herbicides, irrigation). As related to enhanced food security, the issue is mainly one of widespread access by producers to better technology. Access to these inputs is effectively leveraged by good infrastructure, effective markets, and available credit. The private sector has a central role to play in removing production constraints, for example, providing proper fertilizer at the proper time to all productive areas.

Discussions with a leading fertilizer importer emphasized the importance of infrastructure, markets and credit in reaching the 3 million plus smallholders, and reducing the productivity gap between smallholder and large-scale food producers. Outlining a vicious circle of constrained productivity, the informants noted that the majority of smallholders were trapped in low-yielding food production because they were unable to access higher-yielding seed varieties or afford the complementary inputs--unless credit facilities are made available. But given their economic circumstances, and the attitudes of public and private financial institutions, the smallholders are not creditworthy. At the same time, because of the poor infrastructure and limited market outlets, even in years of surplus output -- these smallholders were often unable to make reasonable returns from their efforts.

Although Kenya has the third most developed road network in sub-Saharan Africa, most of it is in poor condition. More than half of the gravel roads that connect farmers to markets are in fair to poor condition, about two-thirds of the access roads connecting farmers to markets are in poor condition, and a third of the paved roads linking markets to main towns and international destinations are fair to poor condition. As roads are a public good, financed and maintained by public funds, there is little the private sector can do directly to improve their condition.

But the cost to farmers and private sector firms is immense. Several billions of shillings are lost due to spoilage of produce from farm to the market. Hundreds of millions of shillings of potential food output are foregone because inputs were available too late to be useful due to impassable roads from market centers to rural trading centers. Post-harvest losses on-farm can range up to a quarter of the grains and legumes harvest, whose cost is counted in billions of shillings.

These post-harvest losses are due mainly to farmers' lack of appropriate storage facilities, and due to impassable roads, they are unable to reach the private traders' stores in the trading and marketing centers

Smallholder food crop irrigation using tube wells and local rivers is virtually non-existent in Kenya because of a lack of electrical power

#### 4 2 2 Constraints to the Development of the Private Sector

CONSTRAINTS	PRIORITIZATION/RANK
Difficult Policy and Business Climate	1
Access Limited to Formal Credit	1
Minimal Vertical and Horizontal Linkages	1
Poor Access to Appropriate Technology	1
Inadequate Infrastructure	2
Land Tenure Problems	2
NGO and Donor Activity	3

Source Field Research/Interviews

Field research involving food processors indicates that the uncertain policy environment, the reluctance by the National Cereals and Produce Board (NCPB) to lease out its major strategically located stores, and continued market interventions by the Government all make for an uncertain business climate. For example, on several occasions in the past two-years, the government has banned and then unbanned, suspended and unsuspended grain imports. The variable duty has been revised several times to make local maize more competitive, and on more than one occasion an anti-dumping tax has been put on maize and wheat imports. The government's inconsistent and uncertain policy on exports of processed maize and wheat products has also been a constraining factor (although processed wheat exports are now more liberalized than in the past). Government de facto policy continues to treat animal feed processing and industrial processing of grain as peripheral and unimportant activities.

The result is that capacity utilization of grain processing is estimated at less than fifty percent. At the same time, due to lack of storage capacity, processing firms keep only three weeks to a month's stock -- limiting their capacity to produce on a consistent basis now that NCPB has become a much smaller player on the market. With grain demand largely limited to human food, the marginalization of industrial and animal feed processing limits the potential market for grain. Limited technology for processing grain into a multiplicity of higher value food products is also a problem. For example, maize is only processed as flour, corn oil, and cornflakes (very limited) in Kenya, compared to the Mexican situation where there are over 200 uses. These factors have limited the ability of the private sector to buy large volumes of maize placed on the market, and by doing so support higher market prices. In 1994, open market prices ranged from USD 12-14, compared to official USD 17 per 90 kg bag. Conversely, maize prices ranged from USD 5-7 per 90 kg bag in late 1995 to between USD 10 (open market) and USD 12 (official) in 1996.

Water supply in Kenya, whether for household or industrial use is a major constraint, not only in rural areas but also in all the major towns and cities. Agribusinesses that use large quantities of water for processing have to invest in

expensive water storage capacity to keep production schedules even. Many rural areas have no water reticulation systems. In areas where these systems are in place, they tend to work irregularly with frequent breakdowns and dry spells. The siting of a processing plant on such a supply system would probably be at the expense of households. Therefore the lack of water is a limiting factor to invest in rural agro-processing.

At the same time a poor rural infrastructure, in terms of electricity, water supply and telephones, make it difficult for agribusinesses to establish themselves in many rural areas. The level of rural electricity connections (including businesses) in Kenya is extremely low. In comparison with India, which has a similar per capita income, Kenya's 2 connections per 100 rural households is one eighth that of India's 16 connections per 100 rural households. The lack of rural electricity limits value-adding activities. Basic processing of grain and oilseeds is also limited, as is storage of perishables such as milk, tea, and horticulture. The cost of a rural customer's joining the national grid is immense, ranging from USD 500 to 4,000 per connection. The high cost of electricity is further exacerbated by the frequency of power cuts that add costs to agribusinesses from loss of production and spoilage.

The combination of poor roads, expensive and infrequent power, deficient and irregular water supply, and limited telecommunications make it difficult for agribusinesses to locate away from major towns. Those agribusinesses that locate in such areas use the most basic technologies, which are generally low-yielding and have limited potential for growth. Infrastructural constraints make it difficult for such businesses to invest in better yielding technologies, as the payback is limited.

Donor and NGO policies and actions can also be constraints to private sector initiatives in enhancing food security. Examples include donor-supported fertilizer imports, grain storage, and relief food distribution. Although most of the donor fertilizer is distributed through the private sector, abrupt donor decisions make it difficult for the private sector to plan ahead for fertilizer imports. Not knowing the types, quality and quantity, and timing of donor fertilizer grants, many importers wait until the last moment before making import decisions. Therefore, fertilizer is often not available at the proper time.

Donor and NGO agencies, particularly those involved in relief work, are also a major destabilizing factor on local manufacturing and food markets. For example, in response to liberalization, Kenya Vehicle Manufacturers has diversified into grain storage manufacturing. In the past two-years in the East African region, KVM has faced price-cutting and "dumping" tactics of movable grain stores from an NGO (Norwegian Church Aid). Having cut prices by about half in 1994, due to KVM competition, in 1995 the NGO decided to distribute its grain stores free of charge, therefore undercutting the business of KVM.

#### **4.3 Priority Constraints That The Private Sector Can Help Alleviate**

It is imperative that the private sector assumes a leadership role in working with the various government institutions to reduce and or eliminate the impediments to agribusiness investment, especially, free convertibility of currency and repatriation of capital. In July of 1996, currency convertibility was established between Kenya, Uganda and Tanzania.

Managers and owners interviewed in all three countries expressed interest in international investment opportunities. Increased investment in agriculturally-related businesses means increased food security and increased effective demand (access).

The following are constraints that the private sector can help to alleviate through collective action and dynamic leadership

- 1) Poor inputs supply and commodity output marketing
- 2) Inadequate post-harvest handling and key commodities storage and distribution investment.
- 3) Poor agribusiness investment opportunity information and analysis capabilities, including cross-border investments and possible joint ventures
- 4) Inadequate private sector with public sector dialog on enabling environment enhancement and commodity policy consistency improvement
- 5) Inadequate producer and small agribusiness firm access to credit, including long term financing and short term working capital
- 6) Weak agribusiness investment conditions, especially poor infrastructure and inconsistent government actions

#### 4 3 1 Examples of How the Private Sector Can Help Alleviate Priority Constraints

Two good examples of how the private sector can help alleviate food security constraints are 1) increasing the utilization of higher value-added processing and 2) forward contracting with producers of food commodities by agribusinesses firms who also supply inputs, the value of which would be deducted from sales proceeds, this should also include improved technology dissemination. The former should result in real price increases in the long run for producers, while the latter can provide a source of inputs for those who could not obtain credit and therefore not acquire the needed inputs. The combination of the two can lead producers to adopt higher-yielding production and post-harvest technologies - which in turn increases agricultural productivity. Improving technology adoption will enhance the skills and technology base of the labor force and increase labor productivity in the agricultural sector. Increased labor productivity leads to real increases in agricultural incomes, which in turn improves access to food and therefore food security. The private sector has a critical role in bringing this scenario to realization. Not only is the private sector the engine of innovation, and therefore the lead player in developing higher value processing, but there is a long established relationship of forward contracting (e.g., barley and tobacco) in the country where processors and exporters provide credit and inputs while guaranteeing to buy output.

This is particularly so in areas that do not have a comparative advantage in food production and therefore households grow non-food commodities such as coffee, tea and horticultural products. The high incomes resulting from the exports of these commodities have allowed the participating households to become the highest income earners in rural Kenya, and generally the most food secure.

Traditionally, the private sector has played a limited and yet important role in technology dissemination in Kenya. Although most of the maize breeds were developed by the public sector (KARI), their dissemination is largely carried out by Kenya Seed Company a parastatal. The climate, internationally and locally, is becoming favorable for private sector development and dissemination of hybrid seeds for maize and oil seeds. Kenya, as a founding member of WTO is bound by agreements on intellectual property rights to safeguard the rights of seed developers. Although local law is still vague, the private sector is in a position to play a key role in developing higher-yielding crop and animal technologies. The monopoly positions held by parastatals in the past are rapidly disappearing as many of them failed to fulfill the objective for which they were organized.

Other examples include

- 1) Increase investments in inputs supply and outputs marketing, including storage and distribution facilities. This would lead to increased involvement in improved rural inputs supply and output marketing.



Abt Associates Inc.

- 2) Forward contracting with producers of food commodities by agribusinesses firms who also supply inputs, the value of which would be deducted from sales proceeds, this should also include improved technology dissemination
- 3) Strengthen vertical and horizontal linkages, private sector with public sector dialog and market information and technology dissemination via more effective agribusiness associations
- 4) Increase emphasis on higher value processing to preserve crops, increase margins and farm prices and employ more labor
- 5) Pursue large firms selectively offering comfort to lenders for loans to the large firm's suppliers
- 6) Encourage more communication between agribusiness firms and donors, especially regarding advance notice about food aid activities
- 7) Continue emphasis on export agriculture, especially high value (e.g., floriculture) and value-added products (e.g., consumer packs of fresh vegetables) to help increase domestic employment and foreign exchange generation. Increased employment will enhance household's ability to buy food (food access), and increased foreign exchange generation will enable government food imports in times of crisis

#### 4.3.2 Stimulating the Development of SMEs

The role of small and medium enterprise (SMEs) agribusinesses in reducing food security constraints requires special consideration. SMEs are the sector most likely to add value to agricultural production in rural locations through agro-processing. Their contribution is currently limited by infrastructural constraints and effective rural demand for their products due to the low incomes prevailing in the markets they serve. Many SMEs are therefore located in the main towns or larger rural towns. Women own a significant number of SMEs, but female SME ownership is less prevalent in comparison to their dominance in microenterprises.

SMEs, especially medium-sized enterprises, are likely to form the basis for higher value added processing and forward contracting linkages, such as those proposed for the soy market by the House of Manji. SMEs provide several potential benefits to such programs. First, their size, capitalization, and position in the formal sector makes them a viable recipient for credit advanced either directly by larger agribusinesses, or guaranteed by larger agribusinesses on their behalf. In turn, they would be able to advance credit to smallholders and microenterprises supplying them with raw materials or primary processed inputs. They would also be in a position, where the infrastructure is sufficient, to invest in more productive technology, producing higher quantities and quality. They would be at the front line in the dissemination of production and post-harvest technologies, as increased agricultural production would enhance their profit.

Currently, SMEs and microenterprises provide the bulk of employment in Kenya and are an important source of new jobs. They are also the main employer of women. These enterprises present fewer barriers to entry for businesswomen. The possibilities for increasing women's participation in SME agribusinesses is higher than in any other sector, and is where the private sector, NGOs, and the Government (through favorable policies) can achieve success. In addition to increasing on-farm agricultural productivity, and off-farm agribusiness productivity, an increased presence of agro-processing and agro-inputs SMEs in rural areas will enhance food security. SMEs make direct contributions to food security through activities that increase food production while reducing post-harvest losses (availability), and indirectly through increased real prices to producers and the stimulation of rural employment (access).

#### **4 4 Constraints to Private Sector Participation in Food Security Enhancement and How These Can Be Overcome**

Based on a consensus of interviewees, following is a prioritized listing of the constraints to private sector participation in food security enhancement

- 1) The short term profit and return on investment orientation of the private sector versus the non-profit and longer term orientation of food security enhancement.
- 2) Agribusiness managers lack of focus on and awareness of their possible role in food security enhancement, and how it is related to their longer term interests
- 3) Lack agribusiness, especially SMEs, access to credit to implement food security enhancing activities
- 4) The limited resources (financial, time and skills) of micro and small agribusiness managers, who account for the largest number of agribusiness firms

Kenya represents the most advanced of the three countries in terms of credit availability and entrepreneurial skills Kenya is moving forward to privatize the NCPB with its extensive facilities and operations throughout Kenya This is a major undertaking, but will allow the private sector an opportunity to increase its participation in food security through more efficient operations The Enterprise Development Program (see 4 5 1) in Kenya is a wonderful example of how the private sector can increase food security and stimulate economic development. At the proposed Private Sector Food Security Conference, with all Core Team members participating, the Enterprise Development Program should be a major topic The participating members should return to their home countries and identify opportunities to undertake similar activities there

#### **4 5 Food Security Enhancement Projects Involving the Private Sector**

The following is a review of three specific projects and activities where the private sector can have a significant positive impact on food security enhancement These are examples of projects which should be assessed by donors, Government and the private sector as mechanisms for enhancing the role of the private sector in improving food security

##### **4 5 1 Enterprise Development Program**

A major effort must be made to cooperate with and support the House of Manji (HoM) Foundation Enterprise Development Program (EDP) The HoM is dedicated to promoting food security The following outlines the objectives of the Foundation vis-a-vis increased agricultural production, increasing the role of the private sector in food security and eliminating many of the constraints faced by medium and large agricultural businesses The objectives of the EDP are directly related to and supportive of the objectives and goals of the GHAI

House of Manji, a Kenyan company involved food processing with its origins in a bakery business established in 1941, has decided to establish a foundation that will address issues of

- 1) Increasing the output of agriculture and associated industries,
- 2) Promoting adequate nutrition and health, particularly among children,
- 3) Increasing the level of technological and scientific development,
- 4) Accelerating the rate of development of human resources, and
- 5) Establishing methods for securing the funding needed to achieve a self-sustaining development process

The objectives of the EDP are

- 1 Actively promote food and nutritional security by
  - a Developing increased public awareness of the nutritional aspects of food,
  - b Establishing nutritional standards for food products suitable for commercial production,
  - c Promoting the role of the private sector in the development of Kenya agribusiness, and
  - d Promoting dialogue on agribusiness development issues between the Government, the private sector and development organizations
- 2 In conjunction with NGOs and development institutions, facilitate the development of micro and small enterprises, and through a framework for credit, marketing information and business knowhow, establish linkages between these agencies for implementation of private sector business enterprise development
- 3) Provide an informal neutral platform to enable private business to cooperate with government and donor agencies on development issues

Specific areas of activity will be identified with the assistance of consultants active in this field. It is proposed that the EDP will provide a focus for the current efforts of agencies already involved in the development process through a coordinated program involving private sector medium-size and large businesses together with small and micro enterprises. Benefits are to be realized at three levels as follows

- |                                   |   |
|-----------------------------------|---|
| 1) <b>Growers</b>                 | Improved technical know-how marketing and distribution  |
| 2) <b>Small/Micro Enterprises</b> | Enhanced access to training, credit, technical know-how, marketing and distribution services, and purchasing agreements   |
| 3) <b>Medium/Large Businesses</b> | Funding for the rehabilitation of physical facilities, promotion of exports through improvement of products and packaging, linkages with overseas companies for technical, export and import agreements |

In addition, agricultural business organizations and associations would be invited to contribute to and participate in the EDP. An open door policy would prevail.

Linkages would be established with organizations such as Kenya Association of Manufacturers, Micro and Small Enterprises, Agribusiness Association of Kenya, Price Waterhouse, similar organizations involved with credit for small and micro enterprises, and the World Link information network.

### Finance

Most donor and NGO/PRO organizations currently supporting programs for small and medium-sized enterprises have access to funding for these programs. The larger established businesses, as brought out in the recent World Bank seminar in Nairobi, need a separate financing facility, this could take the form of an informal venture capital fund with an open door policy for participation. The EDP envisions that it would coordinate private sector enterprises and individuals to review proposed projects requiring financing and link the most viable projects to known sources of financing, from either commercial or donor sources. The EDP is also considering providing the required funding for a secretariat which will link specialist agencies, development organizations and associations, as necessary, with private sector forms that need funding for technical and marketing research and evaluations.

### Considerations for Implementation of the EDP

Local business people have local knowledge of the personality, political and cultural considerations that must be incorporated in any agribusiness development plan, but they lack international contacts for information and sources of technical assistance. The highly integrated approach to be taken by EDP will utilize the best of both worlds.

The policy framework for the EDP should be formulated jointly by donor representatives, local NGOs and the Kenyan private sector.

Elements to be assessed and determined prior to implementing the EDP are

- 1) **Market/Supply Linkages** The potential and specific mechanisms for market and input supply linkages between small and large businesses and the potential for large and medium businesses to grow needs to be evaluated by a competent research company working in close conjunction with commercial agribusiness enterprises.
- 2) **Agricultural Output** The mechanisms to be utilized to increase agricultural output in terms of products, the scope for value added processing of agricultural produce, the role of advertising and promotion to increase local consumption, and the economic impact of increased agricultural activity.
- 3) **Business Needs** The priority needs of large and medium-sized agricultural processors, e.g., for finance, capacity building, technical know-how and overseas trading contacts.
- 4) **Financing** The best method of financing agribusiness development, and optimize the use of funds for long-term self-sufficiency through
  - a) A fund set up to i) finance rehabilitation of physical facilities ii) stimulate the introduction of improved technical processes, iii) provide for formulating technical specifications for products and iv) finance the marketing of output from large and small processing units.
  - b) Establishing a means of optimizing the use of donor finance contributions by scrutinizing and assisting private sector borrowers repay donor provided financing and/or venture capital funds and obtain refinance through local capital market instruments and/or the stock exchange.
  - c) Incentives to local businesses to participate in equity funding of agribusiness development, e.g., through local tax concessions and ways to achieve attractive returns on investment.
- 5) **Linkages with Current Programs** Review the current programs of local NGOs, donors and other development organizations and assess the contributions they could make to the EDP, that EDP could make to their programs and the specifics of high potential linkages in the Program.
- 6) **Human Resource Development** Establish methods to develop technical, entrepreneurial and management skills by attachment of trainees to established businesses, business exchanges, and workshops for interactive problem solving with novices and established business people working together. Kenya Vehicle Manufacturers Ltd of Thika, Kenya, has established and maintained an ongoing employee training program for several levels of technical skills. Interviewees reported that this KVA program is very successful and one that should be duplicated by other businesses.



#### 4 5 2 APPROTEC Oilseed Press

The oilseed press developed by APPROTEC of Nairobi produces cooking oil for human consumption and press cake for livestock feed. This locally produced oil should enjoy a competitive advantage over oil that must be transported long distances into rural areas. In the secondary metropolitan areas the competitive position of this oil would depend on whether or not it is competing against refined, deodorized corn oil or the much less desirable palm oil. However, the APPROTEC oil should be able to establish a market share in medium size cities. Locally produced vegetable oil will also reduce the foreign exchange required for imported oil.

The APPROTEC unit can process a wide variety of oil seeds and could increase oil seed production and availability at the village level where it is most needed. The processing unit is ideal for small agribusinesses and the low investment required makes start-up easy. The oil seed processing unit could be sold and distributed throughout Kenya, Uganda and Tanzania, and to date, approximately 430 units have been manufactured and sold. The following two pages illustrate the ram drive and the filter system. It is recommended that the Kenya Private Sector Food Security Core Group work with APPROTEC in developing press markets, obtaining financing and assisting to locate qualified press manufacturers in all three of the cooperating companies.

#### 4 5 3 KVM Vehicle

The farm-to-market vehicle developed by Kenya Vehicle Manufacturers Ltd may well be the answer to a major agribusiness development constraint, i.e., rural transportation. This vehicle (a small truck with a load capacity of 300 kgs) is very appropriate for transporting inputs to village and farm locations and for transporting farm commodities back to regional markets. It is relatively inexpensive, durable and locally manufactured. Please note the picture and specifications of the vehicle on the following pages.

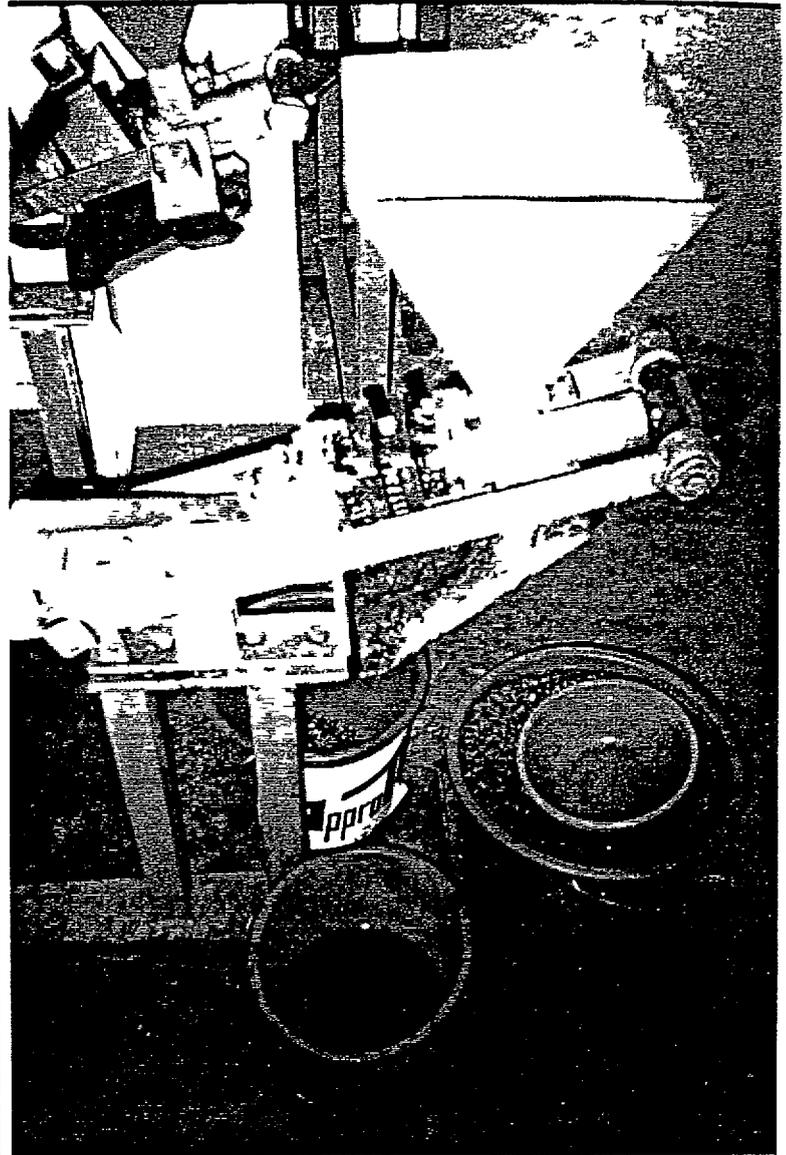
The distribution and sale of this vehicle will promote the growth and development of medium-sized agribusinesses and contribute to increased agricultural production on small farms in Kenya, Uganda and Tanzania. Long-term investment may be required for manufacturing the vehicle, and regional dealers will require working capital to carry inventory and to meet ongoing business expenses. Therefore, it is recommended that if bank participation can not be obtained on reasonable terms, officers of the Kenya Vehicle Manufacturers should discuss financing possibilities and sources with the Kenya Private Sector Food Security Core Group with the expectation that together they could source the needed financing.

#### 4 5 4 Other Specific Opportunities for Private Sector Involvement

- Chemagro, one of the largest distributors of fertilizer in Kenya, would like to work with as many of the three million small farmers as possible to distribute the proper fertilizer at the proper time to the producing areas. The managing director of Chemagro is active in discussing and seeking solutions to problems including transportation, importation policies, with senior officials of the Government of Kenya.
- The House of Manji (HoM), one of the largest food processors in Kenya, is also interested in development of the soy bean market. Currently Kenya produces just over one thousand tons of soy products while the firm has capacity to process twenty thousand tons. The HoM is in the process of collaborating with KARI, the GTZ, JICA, and FAO on technology development, smallholder production, primary processing and marketing of soy products to more fully utilize their capacity. At the same time, it is exploring possibilities with the International Finance Corporation (IFC) for developing a venture capital fund that will help finance the

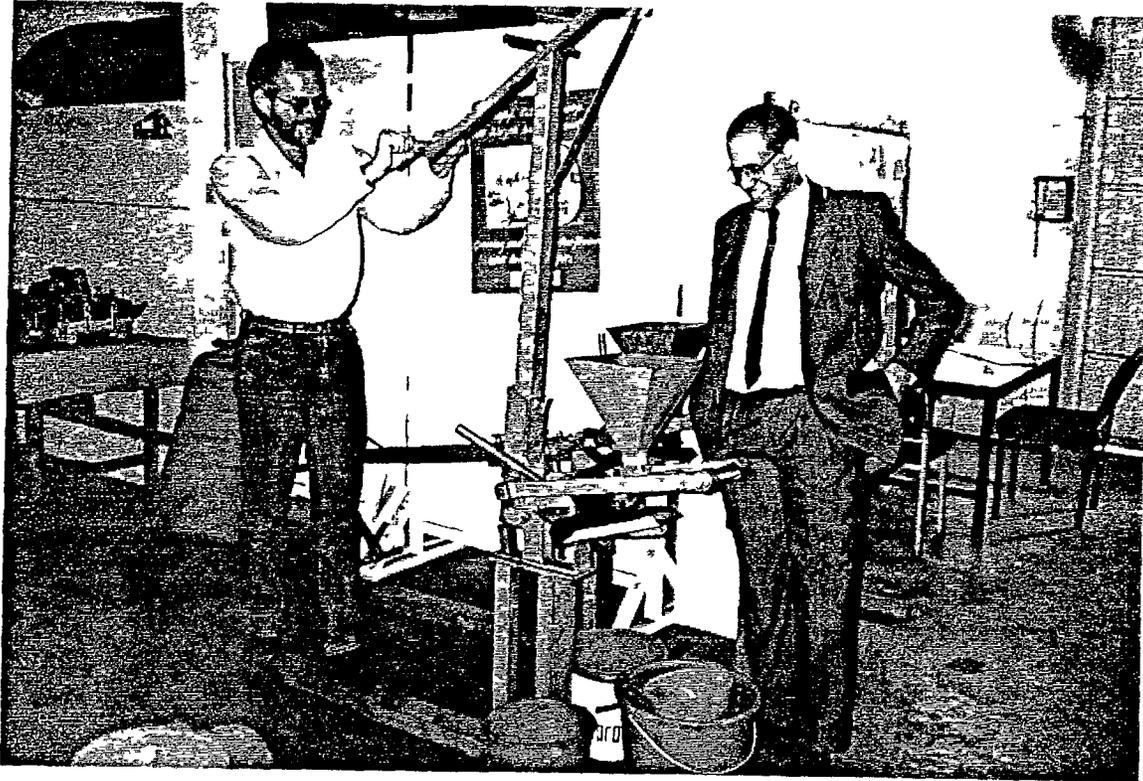
## OILSEED PRESS DEVELOPED BY APPROTEC, KENYA

The Basic Ram Drive Unit  
Cooking oil and seedcake  
are the two products resulting  
from this process

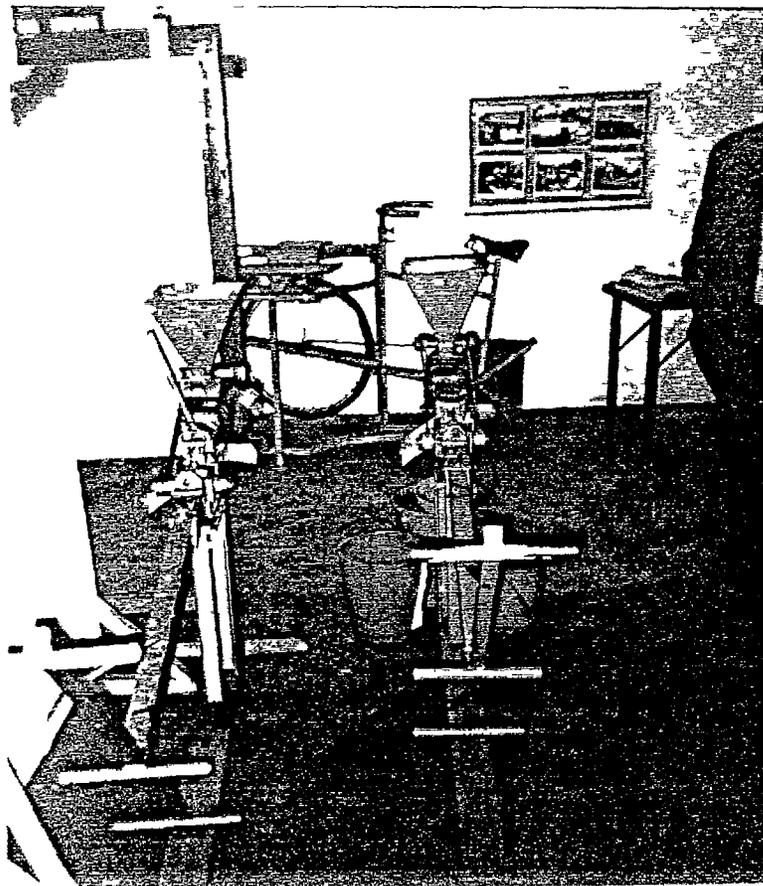


Explaining the gravity feed  
oil filtration system unit hung  
from steel support  
APPROTEC has recently  
developed a fast filter  
using air pressure to  
accelerate the flow of oil  
through the filter element

Oilseed Press  
Developed by Appropriate Technologies for Enterprise Creation  
Nairobi Kenya



APPROTEC developed this press especially for small scale, private sector oilseed processing at the village level. The package (composed of oil press and filters) costs less than \$500.

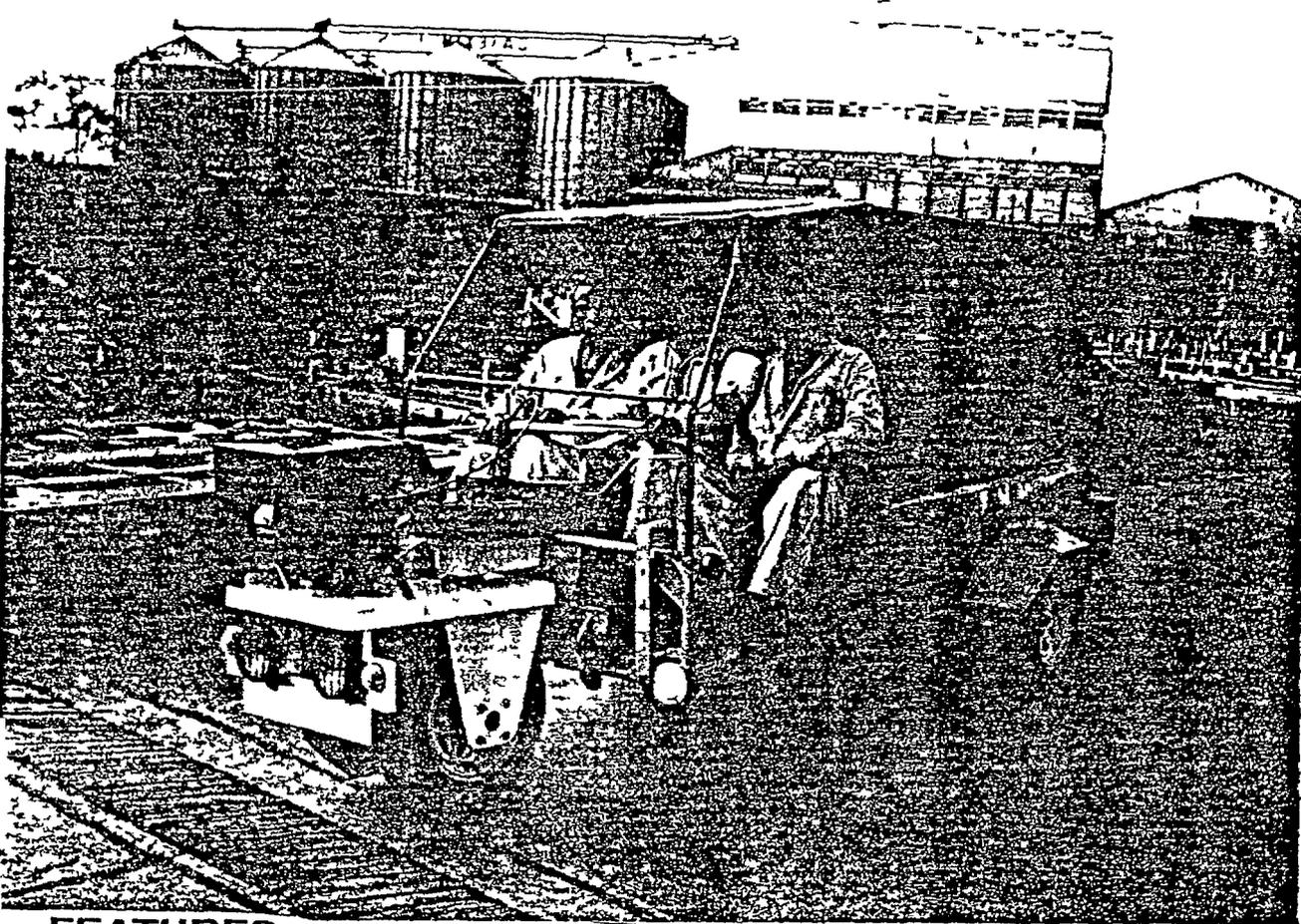


50



Kenya Vehicle Manufacturers Ltd

P O Box 1436 Thika • Telephone 21711/5 Telex 22585 Fax 21689



## FEATURES

**EFFICIENCY:** - Lowest purchase, maintenance and running costs per unit load moved

**VERSATILITY:** - Gearing adapts to drive generators, water pumps, etc while vehicle is in neutral Dual gearing with automatic torque converter allows for heavy load haulage up hills as well as brisk movement on level ground

**MANOUVERABILITY:** - Simple rugged steering arrangement

**DURABILITY:** - Rugged spot welded and bolted construction to withstand abuse Anti-corrosive phosphate coating, two layers of oven baked primer coating and one layer of hardened oven baked high gloss top coat to provide durable scratch resilient surface

**SECURITY:** - Ignition key, lockable engine cover and luggage compartment, and serial numbers on engine and body

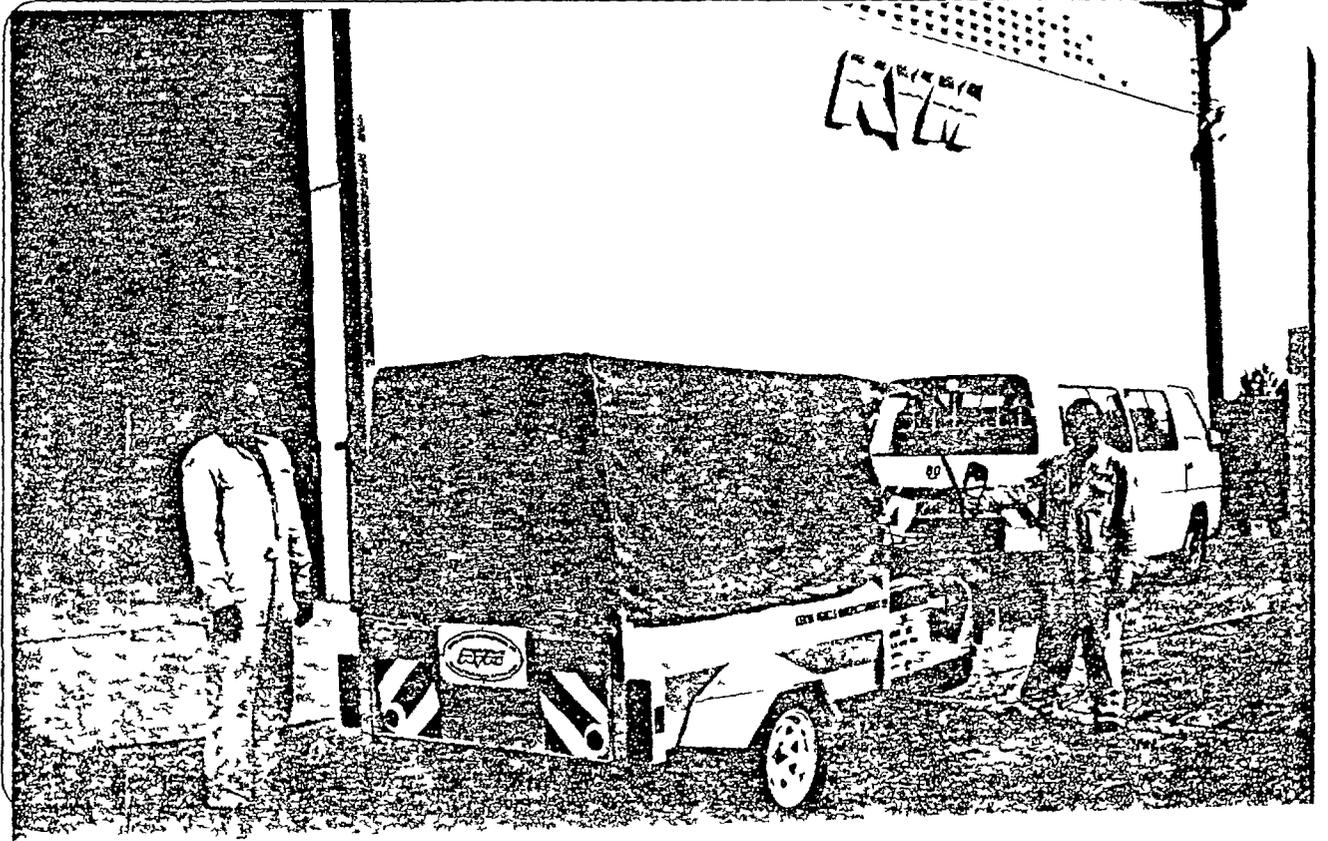
**ENGINE:** - Frugal consumption with automatic low oil level sensor and subsequent engine cut out Also very low noise levels

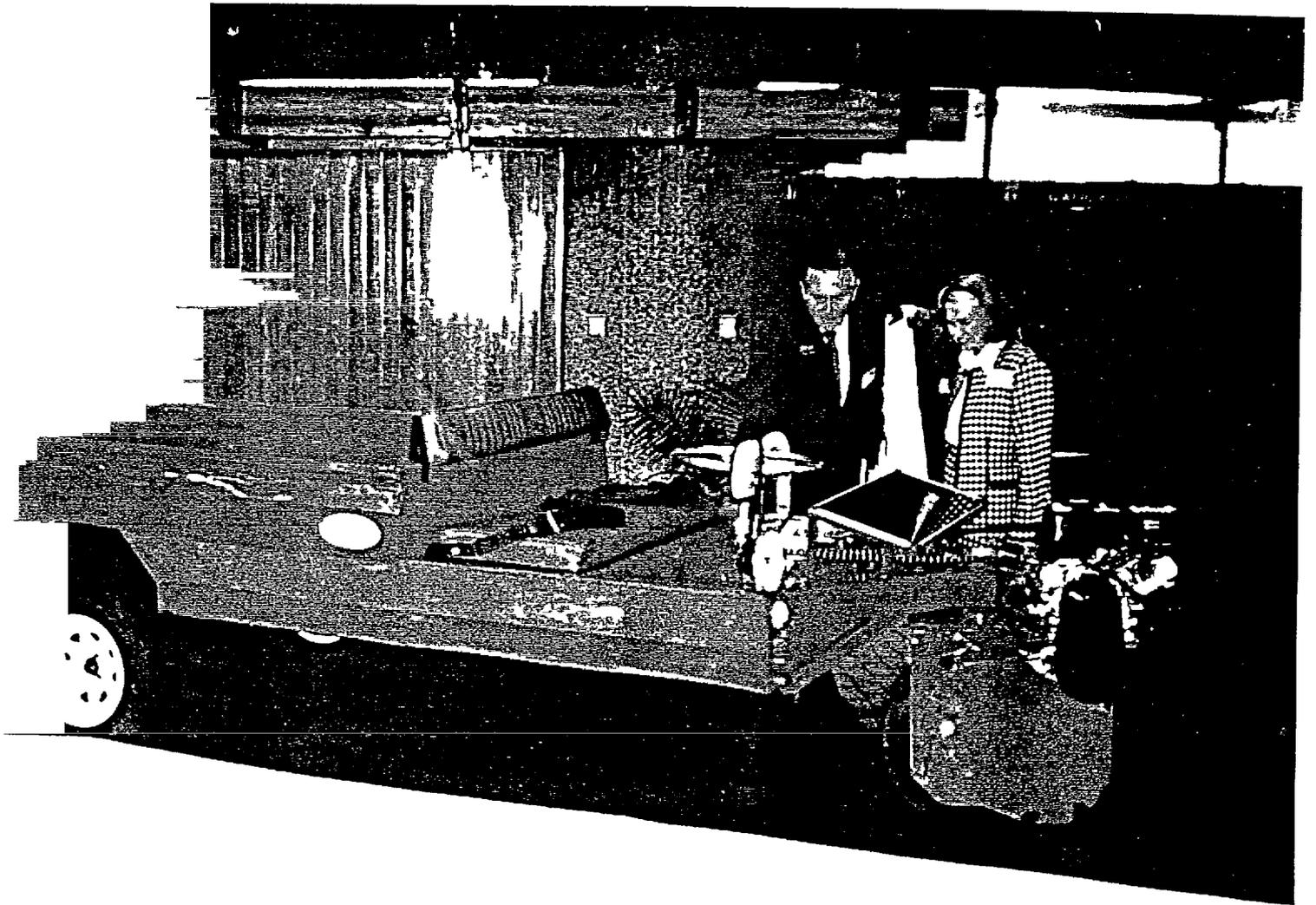
**MAINTENANCE:** - Only basic maintenance required, grease, oil and filter changes.

**OPERATION:** - Can be effectively driven by unskilled labour.

# SPECIFICATIONS

<b>ENGINE</b>	
Type	Briggs & Stratton Petrol Engine
Model	Vanguard 115400 series
Max Power	5.5 hp (4.1 kw)
Max Speed	3600 rpm
Fuel Tank Capacity	41
Fuel Consumption	0.456 - 1.991 l/h
Starter	Hand Pull Start
<b>TRANSMISSION</b>	
Clutch	Centrifugal 3/4 shift
Speed Reduction	Torque Converter + Forward & Reverse Gears
<b>BRAKES</b>	
Rear Wheels	Mechanical Drum
Park Brake	Hand Brake Lock
<b>PERFORMANCE</b>	
Maximum Speed	30 km/h
Turning Circle	3.2 m
Load Capacity	500 kg
Tare Weight	300 kg
<b>SUSPENSION</b>	
Front	Neumatic Tyres
Rear	Rubber Bushing
Road Wheels	155/12
<b>BODY</b>	
Overall (l x w x h)	3.6 m x 1.6 m x 1.5 m
Cargo Deck (l x w x h)	1.9 m x 1.2 m x 0.5 m
Wheel Base	2.5 m
Rear Track	1.4 m
Ground Clearance	0.3 m
<b>UTILITY / SECURITY</b>	
Oddments Space	Lockable Trunk under driver's seat
Ignition Cut Out	Ignition Switch
Engine Cover	Lock & Key
Identification	VIN Plate
<b>HOMOLOGATION</b>	
Audible Warning	Electric Horn
Visibility	Chevrons & Reflectors All Round
Lighting	Solar powered Head/Tail Lamp (Optional Extra)
Speedometer	N/A - max speed below 30 km/h
Identification	Engine & Chassis Serial N°





establishment of agribusinesses interested in soy production and processing. The HoM has pledged to purchase up to 20,000 tons of soy beans to support the infant industry.

- Similar agribusiness development support efforts are required if agribusinesses are going to play a major role in enhancing food security. For example, the dairy subsector, currently served by a small number of efficient processors, but under served by the giant parastatal Kenya Cooperative Creameries (which has over 80 percent of the processed dairy products market), is an industry that would benefit from such an arrangement. Public sector support for additional dairy processing plant licenses (now very limited) and dairy processing SME support programs jointly sponsored by larger-agribusinesses and donors would be very effective in improving the supply of dairy products to the people of Kenya.

#### 4.6 Role of Women in Food Security Enhancement

Since USAID has a special interest in women in development, the following section looks at the role of women in food security enhancement in Kenya.

##### 4.6.1 Introduction

The agribusiness private sector is highly differentiated, ranging from microenterprises, small and medium-sized enterprises, large private or multinational support firms, importers and exporters, grain millers, and their supporting institutions (cooperatives, farmers groups, etc.). Although the constraints previously mentioned tend to affect all private sector agribusiness participants, the degree to which the different entities are constrained in their ability to enhance food security varies.

For example, the vast majority of private sector participants in retail and wholesale food markets are microenterprises and market women. Therefore, the role of women in informal sector marketing is very substantial, 80-90 percent of all smallholders sell through these markets, and 80 percent of retail food marketers are women. These are the people that buy and transport maize, beans, fruits and vegetables from one market center to another. Women form the majority of all small-scale food vendors in retail markets and trading centers. They are usually self-financed, either from their own savings or family sources. A lucky few who belong to groups that NGOs have an interest in may get group credit, but as a rule women in retail and wholesale food trading are not credit recipients.

As virtually all the rural and (a large proportion of urban) households purchase their food from these market women - they are the first line private sector players in enhancing food security. For most consumers, market women are the main interface between themselves and producers. They are also the principal participants (together with children and youth) in the informal sector cross-border food trade between Uganda and Kenya that supplies between 5 and 10 percent of Kenya's food needs.

These market women face several constraints. They are rarely recipients of credit, either as individuals or as members of cooperatives. This is because many lending institutions require male approval before lending to women and cooperative membership (except for widows) is often through the male head of the household. Few women have collateral, as most land titles are registered in the names of males. Single women by choice are often more fortunate in this area, as they may have either purchased or inherited titled land in their own name. As agricultural land titles increasingly lose their collateral value, and lenders insist on either urban commercial titles or titles to the borrowers' vehicles, even these more fortunate single women are becoming marginalized in the credit market. The result is that most market women are trapped in a "no-growth" informal trade, which serves the producers and consumers well, but has limited opportunities for their own self-betterment.

Although various NGOs (including the women owned bank - Kenya Women's Finance Trust) have targeted their credit directly to women in business, their overall impact is small. However, it is clear that women, whether as individuals or as group members are, creditworthy. Larger private sector participants, and small and medium-size enterprises, that tend to be owned by men, would do well to support women in microenterprises. Currently, there are very few private sector initiatives to involve women in formal agribusiness, outside of forward contracting arrangements for the production of certain crops. Therefore, women private sector participants are likely to remain at the informal microenterprise level, where they play a critical role in household food security through the income they derive from food wholesaling and retailing.

#### 4.6.2 Enhancing Food Security Through Greater Involvement of Private Sector Women

This report has discussed the role of the private sector in general, rarely mentioning gender except for the sections on microenterprises and small and medium-sized enterprises. However, women play such a major role in household food security, there is need for a specific focus on their role and importance. Improved household food security generally depends on one of two things: either the household becomes more efficient in the production of its own food, or it becomes more efficient in the production of goods and services it can exchange for food. In either activity household gender is at the heart of the matter.

At the household level in sub-Saharan Africa, women account for the bulk of agricultural workers (70%), food producers (80%), food marketers (90%), and food processors (100%). Women are most involved in subsistence grain (including sorghum and millet) production, garden vegetable production, milk and ghee production, poultry rearing, raising sheep and goats, and legume production. Men on the other hand are commercial cereals growers, commercial dairy producers, export horticultural crops producers, and coffee and tea producers. This gender division of production is a product of socialization, with women preferring those enterprises that feed the home directly as a means of minimizing the food security risk that depending on men's domestic appropriations from cash crops brings. Yet women do adopt commercially viable production technologies, and there is a tendency for men to appropriate from women those technologies that have commercial value.

Conventional wisdom, key informant interviews and studies indicate that women face formidable problems in agricultural production. For example, a survey<sup>10</sup> on maize technology dissemination provides evidence of the gap between men and women. Male maize farmers surveyed had five times larger farms than women (35.8 ha to 7 ha), were more educated than women (65% to 53%), were twice as likely to own tractors (4.6% to 2.1%), were more likely to own a plow (14% to 9.7%) or draft animal (18.8% to 13.7%), had received more extension advice (64% to 55%), and were twice as likely to have received credit (7.3% to 3%).

The male farmer's advantages, when measured against female farmers' technology adoption and productivity, do not seem to result in significant gains over females. The most significant difference was in yield, where female maize farmers yields were 83 percent those of male farmers. In most other measures, the advantages men seem to have above did not translate into major differences. Women were just as likely to use fertilizer as men (48% to 50%), to top dress (14% to 15%), to use hybrid seed (66% to 70%), to use chemicals to control weeds (14% to 16%), and to use a tractor to plough (20% to 23%). The explanation given for women farmer's lower yields was that they were more likely to plant in poorer quality and steeper fields than men. On the balance, it appears that female maize farmers, despite their lesser access to several farm resources and agricultural services, performed very well.

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<sup>10</sup>Conducted by Professor Thomas Odhiambo of Africa Randforum, and founder and director of ICIPE and the Africa Academy of Sciences

Similarly, the survey showed no significant differences in post-harvest practices between the two genders, with women just as likely as men to go to the local market to sell a surplus (38% to 39%) whether by foot (47% to 46%) or by animal (11% to 13%) or by lorry/bus (14% to 14%). The storage technology by both genders was more or less similar, with women slightly less likely to own maize cribs (45% to 50%), but slightly more likely to store maize in the ordinary stores (53% to 49%) than men. About the same proportion of women and men went to the local mill to process their maize (82% to 79%), and had never used chemicals to control store pests (28% to 29%). The women and men preferred the same maize varieties in the same environments, except in marginal areas where women seemed to show greater preference for traditional varieties.

The potential for maize farming productivity gains from focusing farm resources and agricultural services on women is substantial and the gains to be made in enhanced food security at the household level are significant. Surpluses generated by increased productivity would enhance national food availability and access. The income gains would benefit households directly, since women are the predominant traders in this trade, and their primary interest lies in the welfare of their households. While there are no similar studies for other crops and livestock enterprises, it is likely that given similar access to farm resources and agricultural services, women will be very productive and household security will be enhanced. Therefore, the larger private sector agribusinesses and SMEs should support and invest in women owned agriculture related business. Currently, it is not clear if such private sector initiatives exist.

#### **4.6.3 The Private Sector and Women's Contribution to Food Security**

Despite the important roles microenterprises, SMEs and women can play in enhancing food security, the private sector has yet to lead a rejuvenation of investment in the smaller scale end of the food industry. Large agribusinesses have to become the engine of private sector led enhanced food security, through large infusions of local and foreign capital in agro-industrial production. They alone can provide the economic support for SMEs and microenterprises, and the necessary synergy to get all private sector participants fully integrated into food security enhancing activities. One way this could be done is through credit and financing arrangements that allow women-led SME enterprises and microenterprises to accumulate capital and invest in more productive technology, largely through subcontracting for part of their production. A three tier system could eventually form, with large listed (Nairobi Stock Exchange) and unlisted private agribusinesses subcontracting to family owned SMEs, which source their raw and primary processed materials from microenterprises especially those which are owned by women. In this process, capital and technology is transferred down to microenterprises, run mainly by women.

#### **4.7 The Kenya Private Sector Core Team**

Several individuals were identified in Kenya that have good potential to form the Kenya Private Sector Food Security Core Team. They are listed in Appendix A. A report on the initial meeting of this group is included in section 2.8 of this report.

Kenya Core Team members have expressed their willingness to participate in the regional Private Sector Role in Food Security Enhancement meeting, and that participation should be strongly encouraged.

## 5 0 UGANDA

### 5 1 Introduction

This chapter reports on the findings of two weeks of primary research in Uganda, and focuses on specific food security enhancing agribusiness investment opportunities

### 5 2 The Current Contribution of the Private Sector

#### Background

As a general rule Uganda has not suffered from famine as have other countries in the GHA. There are districts such as Kabale, Bugisu and Iganga where land and soil conditions limit the amount of food produced, with resulting human hardship. Most areas in Uganda produce sufficient food supplies to feed the local population, however, there are many families that do not have enough income to purchase the volume and kind of food required for adequate nutrition. Field research conducted for this activity in both Uganda and Tanzania indicated that this is true in both countries, and that major national efforts are required to correct these conditions. As the private sector in Uganda's economy recovers and employment expands, effective demand will increase, and given Uganda's productive capacity, more families will have access to food supplies.

With the exception of maize produced for on-farm consumption, cereals and pulses do not represent as large a part of total agricultural production as desirable in Uganda. Increased production of cereals and pulses would do much to improve food security in the region, and there is opportunity for both domestic and export marketing. The IDEA project is playing a central role in development involving the private sector in cereal and pulse production.

Geographically, Uganda is in a strategic and agronomic position to enhance regional food security. Kigali, Rwanda, is only 589 Km from Kampala and Bujumbura, Burundi, is 880 Km south-southwest. Food security in these areas will be a problem for quite some time. Uganda is the gateway for overland staging, storage and shipment to these destinations. The World Food Program and others place tenders in Uganda for commodities required for their relief programs. Since roads in the area are sparse, Lake Victoria provides water transportation between Kenya, Tanzania, Uganda, Rwanda and Burundi.

In summary, notwithstanding large post-harvest food losses, Uganda should, in the short run, have no real food security problems. However, in the long run agricultural growth must exceed population growth by a "comfortable" margin.

#### The Private Sector

Present experience indicates that the private sector in Uganda is indeed, resilient. Several well-established firms are interested in expanding their storage facilities by either investing in new facilities or acquiring parastatal facilities. One firm doing further value added processing of fruits and vegetables would like to increase production by 100 to 200 percent, however, any increase above present levels would require export markets. Present family income levels in Uganda will not allow for additional domestic consumption. But, USAID's IDEA project is well designed to support increased production and export marketing of high value crops.

Post-harvest losses top the list of food security-related problems in Uganda. This is true for fresh fruits and vegetables, cereals and pulses and raw milk. Estimates of actual losses run as high as thirty-five to forty percent for fresh fruits and vegetables, and twenty-five to thirty for cereals and pulses. During the wet season, raw milk supplies far exceed the demand with considerable waste the result. Ultra heat treated homogenized milk, with all the advantages of quality,



storage, etc., is priced above the ability of much of the population to purchase. Powdered milk may have more potential in providing food security than UHT, and the private sector should take the lead in assessing the viability of investment in the necessary processing facilities. It was reported by the General Manager and the Field Production Supervisor of The Dairy Corp. that powdered milk could be distributed to villages at costs low enough to enable low-income families to purchase and consume milk.

The basic food crops that provide the means of subsistence for the people of Uganda require a very large share of productive land, and bananas are all-important in providing the means of subsistence. Nevertheless, post-harvest banana losses are substantial and banana drying and processing facilities offer small and medium-sized private sector entrepreneurs an opportunity of considerable promise. This is because of the relatively small amount of investment capital necessary to begin operation. The technology is simple, and marketing opportunities are readily available for dried banana products.

The government-owned Kawanda Research Station, located just outside Kampala, is developing a grain drying unit and improving village and farm level storage facilities. In the near future this grain drying equipment could provide small and medium size agricultural businesses with an opportunity to make a profit and make a substantial contribution to food security, primarily through the significant reduction of post-harvest losses.

The following page is from a Kampala paper showing how one firm in Uganda is contributing to food security by creating a market for oil seeds. It is this type of action that drives development.

The private sector can help alleviate problems related to food security by operating in an effective, business-like manner and by making the necessary investments to fully develop the agribusiness private sector's potential.

**On the input side** The private sector contributes to food security by providing the proper fertilizers at the right times, quality seed for the areas served, credit where possible, and appropriate technology in cooperation with government extension services. Agricultural service firms, private and cooperative, play a central role in food security enhancement by supplying those inputs that increase food production and production efficiency. Effective and efficient private sector participation in food security enhancement depends on a number of variables including government policy and practice, communications and roads, financing, institutional factors and entrepreneurial skills.

**On the output side** The private sector makes a very real contribution to food security by entering the market at harvest time to purchase the commodities produced on farms, both large and small. Storing these commodities for distribution until the next harvest period contributes to food security. The carrying of food inventories is, per se, food security, but there are many costs that the private sector incurs in carrying inventory, and substantial investment is required. These costs and investments constrain private sector involvement, especially when financing is either unavailable or very expensive.

When a strategic reserve is required, private sector firms can provide storage, including the preservation of inventory until the proper government agency wishes to take delivery. This service can be provided at a commercial rate, but it is not realistic to expect the private sector to finance a strategic reserve.

### 5.3 Prioritization of Food Security Constraints

The following section describes the key constraints to increased production, and to the more rapid development of the private sector. Both are necessary to reduce food insecurity in the GHA.

### 531 Constraints To Increased Production

CONSTRAINTS	PRIORITIZATION/RANK
Inadequate Rural Transportation Infrastructure	1
Limited Use of Inputs, Seed, Fertilizer, Etc	1
Poor Access to Credit for Inputs	1
Limited Agricultural Research/Extension	2
Minimal Access to Appropriate Technology	2
Low Purchasing Power of Domestic Households	2
Land Tenure (Constrains Development of Commercial Agriculture)	3
Limited Information/Knowledge on Markets and Prices	3

Source Field Research/Interviews

When prioritizing the constraints to increased agricultural production, it must be realized that many of the constraints are, in fact, so interrelated that one constraint cannot be reduced without at the same time reducing several others. For example, credit must be available to purchase the proper seed, the right fertilizer must be on hand for application at the right time, and the farm gate price must be high enough to justify the use of the inputs. Both inputs and output require that farm to market roads are serviceable in all weather conditions. Technology is necessary to assure proper seed bed preparation and input utilization. A complete production system is required.

Rural Transport Although major trunk roads have now been rehabilitated in Uganda, most secondary roads are still in poor condition. This is exacerbated by the high cost of fuel. The cost of petrol is currently about US\$1.00/liter, compared to US\$0.50/liter in Kenya. As a result, transport costs are very high and contribute considerably to the large price differentials between the farm and destination markets. According to one respondent, it is "currently cheaper to send white maize from Thailand to South Africa than from Uganda to South Africa." Every general manager interviewed agreed that transport was the biggest constraint to increased agricultural production and for the "total" development of the private sector in a country that is predominantly agricultural.

Limited Use of Inputs The majority of the farmers in Uganda use limited amounts of fertilizer or other yield enhancing inputs. The reasons for this include (i) lack of finance, both on the part of suppliers to import inputs and farmers to purchase them, (ii) limited reach of the private sector - it currently covers only easily accessible parts of the country, (iii) limited extension advice from the government and the private sector on the best inputs to use.

Limited Access to Credit In general there is very limited access to private sector credit at all levels in Uganda, from the smallholder to the large-scale commercial farmers. Even for those with access, the cost of credit is prohibitive for long-term investment. According to one respondent, credit for exporters does not exist (pre- and post-shipment financing). Banking institutions are very biased towards collateralized lending. The chairman of the Uganda Horticultural Association stated that there are no long-term funds available for large capital investments in storage or transport. This is one reason why entrepreneurs have not invested in storage. The Managing Director of Magric Ltd., a major agribusiness player in Uganda, also agreed with this conclusion and recommended that below market seed capital be made available to the private sector to invest in storage facilities.



Lack of Consistent Markets A major constraint to increased agricultural production and private sector agribusiness investment Uganda, and therefore enhanced food security, is inconsistent export market demand and the small size of domestic markets During one season there may be a high demand for a commodity, this stimulates production the next season only to find that demand no longer exists One large trader in maize noted that the market in Kenya (a major outlet for Ugandan maize), for example, was very inconsistent (to some extent caused by GoK arbitrary import policy decisions) NCPB is not a reliable buyer as it did not accept orders placed in some instances Also, the Kenyan maize market is generally self-sufficient when there are good rains, so market demand varies from year to year This inconsistency makes it very difficult to plan and invest in large scale maize production, storage and distribution for the Kenya market

Limited Government Support for Agriculture Although the situation is slowly improving, the general impression among those interviewed is that the Government has not given the agricultural sector the priority it deserves This includes developing an appropriate policy framework for agriculture and providing funding for agricultural research This should be seen, however, in the context of the Government's broad liberalization process which involves a reduction in the role of government, and a greater role for the private sector The Government has withdrawn from a number of areas including the storage, marketing and distribution of crops and the supply of inputs This has left a large vacuum for the private sector to fill, which it has managed to fill so far, with varying degrees of success During this transition phase, the Government has yet to define clearly its own role and how it intends to effectively implement that role As a result there is a general perception that the Government has not been very supportive of agricultural research or extension

Access to appropriate technology is a major constraint to increased production and this is related to research and extension, the traditionally provided by the government Appropriate post-harvesting technology is also lacking, with the result crop losses of great magnitude

Paucity of Research Prior to the Amin era, Uganda had the finest agricultural research capability in East Africa This has considerably diminished Very little research is being done on appropriate seed varieties for various crops The little research that is being done tends not to be linked to the specific agriculture/agribusiness needs of the private sector The few seed varieties that are produced are too expensive for most farmers The National Agricultural Research Organization was created recently to address these constraints, however, considerable resources will be required to restore Uganda's research capability to its prior levels

Limited Information Farmers have limited access to information on both domestic and international markets Farmers also lack information on production techniques and technologies Traders lack sufficient information on market opportunities and, as a result, food deficit areas often do not receive food since those in surplus areas are unaware of this market opportunity The chairman of the Uganda Horticultural Association pointed out that in order for Uganda horticultural farmers to be competitive they need updated, valid market information on prices and trends This is currently difficult to get on a consistent basis, requires considerable investment and therefore acts as a constraint to investment in the sector

The same situation applies to other food crops, for example recently there was a food deficit in Uganda at one location and, as a result, a price differential of 600 percent between that location and surplus areas Traders were not aware, however, of this differential and therefore were not able to take advantage of the opportunity

Limited Land Holdings The majority of the 2.6 million agricultural households have very small holdings, less than three acres in total This constrains their ability to invest in appropriate technologies and other inputs necessary for the commercialization of agriculture, thereby expanding outputs and improving yields A number of respondents stated

that this was a constraint to increased agricultural production. Non-uniform land tenure must also be classified as a constraint.

Recently there has been a movement by the Government of Uganda to create blocks of land suitable for commercial agriculture. One block of 600 acres has been established near Kampala. It is reported that the 600 acre block is being structured to attract international investors who will develop commercial agriculture for both export and domestic consumption.

**Other** Demand and price levels have also been distorted by the intervention of donors like the World Food Program who have dumped free food in countries like Rwanda that could have been sourced from Uganda. As a result, there is limited incentive or ability for the private sector or farmers to invest in production or marketing networks. The Uganda domestic market is very rudimentary, with the majority of production utilized at the subsistence level. Price fluctuations are large, and there is very little investment in storage as the private sector is unwilling to bear the risk.

### 5.3.2 Constraints to the Development of the Private Sector

CONSTRAINTS	RANK		
	SMALL *	MEDIUM *	LARGE *
Poor Infrastructure	1	1	1
Small Domestic Market	1	1	2
Lack of Business Information and Opportunity	1	2	3
Limited Business and Technical Skills	1	2	3
Lack of Access to Formal Credit	1	2	3
Unfavorable Government Regulation	2	2	1
Political Risk and Uncertainty	3	2	1
Low Consumer Income (related to small market)	3	3	2

Source: Field Research/Interviews

\* Business Size

There is a serious shortage of both long-term investment capital and working capital in Uganda to meet ongoing business expenses for firms of all sizes. However, the larger well-established agribusinesses firms are not as constrained as SMEs. The general manager and owner of a large food processing firm stated that the firm would like to increase its capacity by 100 to 200 percent, but long-term investment capital was not available at reasonable rates. The owner and general manager of a grain marketing firm reported that he had obtained the necessary capital to purchase storage facilities from a European supplier. The 5,000-ton facility was due in Uganda in the very near future. The firm had also recently purchased four bulk grain trucks with a capacity of 40 tons each. In addition, one large agricultural trading company indicated that they were "prepared" to purchase not only the Jinja facilities of the Produce Marketing Board, but also certain other go-down storage facilities located throughout Uganda. The source of the capital was not mentioned.

Although there are a number of institutions in Uganda organized to assist in providing and/or obtaining long-term investment capital for private sector business development, their actual level of activity is rather low. Three firms reported that large organizations can obtain investment capital either from formal sources or via special arrangements. However, for small firms, obtaining investment capital is all but impossible. The entrepreneurs' lack of basic management and technological skills is a major problem that will require much time and money to overcome. The entrepreneurial class in Uganda will have to be rebuilt, and there is evidence that this is taking place, but at a slow pace. However, field interviews conducted for this activity indicate that there are a small but growing number of business concerns that are looking for opportunities to invest. Many, perhaps most, of these forward-looking firms are involved in agribusinesses.

#### **5.4 Priority Constraints That the Private Sector Can Help Alleviate**

Interviews conducted with private sector general managers and owners indicate that for each constraint category there are several different points of view regarding priority. An important constraint to one private sector organization is not necessarily a significant factor with another. This is true even when the firms are of approximately the same size with operating systems that are very much alike. Nevertheless, there are constraints that many private sector managers believe are both important and can be removed with private sector assistance. The following is a consensus based ranking of the constraints that most seriously inhibit private sector food security where private sector firms can help reduce their impact.

- 1) Lack of business and market information
- 2) High post-harvest losses
- 3) Minimal use of quality production inputs
- 4) Limited agribusiness management and technical skills
- 5) Poor producer and agribusiness access to appropriate technology
- 6) Minimal availability of formal credit, and if available at prohibitive interest rates
- 7) Minimal government support for agriculture and agribusiness and the unfavorable related regulations and tax policies
- 8) The lack of consistent markets

#### **5.5 Constraints to Private Sector Participation in Food Security Enhancement and How They Can Be Overcome**

While the private sector has taken on a much larger role in the trading, distribution and marketing of food in Uganda with the onset of liberalization, they still face a number of constraints to their further active involvement. There is also a need for enhancing the participation of indigenous businesses, as the larger agribusiness firms are predominantly Asian or foreign owned.

The following is an interviewee consensus based ranking of the constraints to private sector participation in food security enhancement.

- 1) The short term profit and return on investment orientation of the private sector versus the non-profit and longer term orientation of food security enhancement
- 2) Agribusiness managers' lack of focus on and awareness of their possible role in food security enhancement, and how it is related to their longer term best interests
- 3) Lack of agribusiness, especially SME, access to credit to implement food security enhancing activities, e.g., storage and drying facilities

- 4) The limited resources (financial, time and skills) of micro and small agribusiness managers, who account for the largest number of agribusiness firms
- 5) Inconsistent local and regional government regulations and enforcement which discourage agricultural/agribusiness investment

It must be understood that the private sector is profit-motivated. However, onerous and often inconsistent government regulations inhibit private sector investment in agribusiness. Liberalization policies should, in the long run, allow the private sectors to reach a maximum point of development. Expanded investment by the private sector is the key to long run food security. This investment will be stimulated by an enhanced enabling environment.

## 5.6 How the Private Sector Can Help Alleviate Constraints and Specific Food Security Enhancement Projects Identified

The following section outlines how the private sector can best become activity involved in food security enhancement in Uganda.

### 5.6.1 How the Private Sector Can Help Alleviate Constraints

**Enhanced Market Information** Uganda, like Tanzania, suffers from the lack of timely and correct business information vis-a-vis prices, market developments, supply and demand conditions and technology. There are several organizations in Uganda that are involved in providing business information. However, it is recommended that a single organization be given the mandate and resources to compile and disseminate agribusiness information to the private sector through their associations. The Private Sector Foundation may be a good vehicle to make this happen. The Private Sector Foundation is based in Kampala and has a total membership of 17 private business organizations located throughout the country, but principally in the greater Kampala area. The Foundation holds regularly scheduled meetings and in addition, conducts ongoing dialogue with all members. The members of the Foundation are concerned with business taxes, government regulations affecting import and export practices and other related matters. The Foundation serves as a spokesman for the private sector vis-a-vis the relevant Ugandan government agencies. The director of the Foundation expressed the opinion that the transition from parastatal to private ownership was a high priority need and that the Foundation would like to play an increasing role in this evolution. One way this can be accomplished is to provide widely available information on the privatization process and opportunities.

**Improved Access to Finance** For all but a few agriculturally-related firms in Uganda there is neither long-term investment capital nor short-term funding for working capital. USAID and others are supporting financial institutions, and there is reasonable cause to expect conditions to improve in the future. There are also donor credit programs in Uganda and information about these must be relayed to the private sector. There are banks like the African Export/Import Bank, the International Finance Corporation and the African Development Bank that can help determine the various financial alternatives. Many private sector firms are not aware of the different capital sources. It is recommended that all private sector firms, likely through their associations, work with the Uganda Investment Authority, the Private Sector Foundation and the banks and financial institutions to develop workable financial programs that will reduce risk for financial institutions while at the same time increase access to finance for private sector agribusiness firms.

**Applying for Financing** Another problem the private sector can help solve is to provide education on and assistance for the proper preparation of "bankable" business plans, including for example real time cash flow projections, income statements, and a break-even analysis. This educational process could be done through the Private Sector Foundation offering seminars and workshops on the preparation of business plans. Well-developed and presented business plans



will open banking doors that now appear closed. The Private Sector Office of REDSO/ESA has the ability to provide the leadership for such a program.

**Enabling Environment** Collective action is the best approach to correcting unfavorable aspects of the enabling environment such as government regulations, tax policy, public supporting institutions and poor infrastructure like rural roads and communications. It is recommended that organizations such as the Private Sector Foundation or the Uganda Investment Authority establish a permanent private sector commission to maintain a constant dialogue with the proper government agencies to address these constraints. It will require a considerable length of time to correct the many inter-related constraints. For example, a bakery manager indicated that the complex tax system is a real constraint to the development of the industry.

**The Uganda National Forum** The National Forum was established in 1992 under the aegis of the implementing Policy Change Project supported by USAID/Uganda. The purpose of the initiative is to focus and energize action on the various government policies, programs and initiatives in the area of private investment and export development. The Forum's goal was to promote a strategic approach, which involves the participation of the private and public sectors for more effective implementation of national policies and initiatives affecting business. The Forum conducts regularly scheduled meetings. These meetings bring together senior members of the Government of Uganda and leading entrepreneurs from the private sector.

The Government of Uganda has continued to undertake economic reforms under Structural Adjustment Programs (SAP) aimed at macroeconomic stabilization, improvement of the efficiency of the public sector and revitalization of the private sector. In order for the private sector to respond effectively to the reforms, the remaining constraints have to be removed through the close cooperation and concerted effort of Government and the private sector. To further focus on implementation of agreed national strategies for private sector development, and on sustaining cooperation between the Government and the private sector, the Presidential Forum is held each December. As an example, activities at the December 1995 meeting were as follows:

The Forum was hosted by the Chairman of the Uganda Manufacturers Association (UMA), Mr. James Mulwana, and chaired by Mr. Sam Rutega, Chairman of the National Forum Monitoring Group. Similar to the previous two Forums, participants were drawn from the government, private companies, private sector associations, political leaders and the donor community.

During the course of the year prior to the Forum four Working Groups, namely Investment Promotion and Export Development, Human Resources Development and Capacity Building, Financial Sector Development, Tax Policy and Administration, met on a regular basis to discuss issues and to ensure speedy implementation of those actions agreed upon. During the plenary session the Chairmen of the above groups reported on progress made. Each Working Group prepared a paper for presentation to the Forum providing a summary of progress made on their respective mandated Action Plans, highlighting successes, failures and new policy areas needing priority attention.

Participants were divided into groups to further discuss the above reports. Discussions centered on identifying all issues, ranking the issues in order of importance, identifying the top ranked issues that should be resolved within the next 12 months, developing recommended solutions, and deciding whether the forum is to continue and if it is, when and through what institutional arrangements would it do so.

Recommendations and Action Plans drawn by the discussion groups were presented to the plenary session on the second day and later in the afternoon to the Prime Minister of Uganda who represented the President.

The structure of the forum has a direct impact on the government's decision making process since the representative of the various government departments take ideas and recommendations from the Working Group meetings back to their respective positions. Policy, therefore, is influenced by having key decision makers involved in Working Groups.

The success of the Forum can be attributed to the solid leadership from the Uganda Manufacturers Association and a strong commitment from the president of Uganda. Equally important is the dedication by the individual members to maintaining open policy dialogue and commitment to creating a better future for Uganda.

On the whole, the Forum is a demonstration process that has brought together different sectors of Uganda's society to discuss and influence export and investment promotion policy. It has been well received by Ugandans and is viewed as a necessary vehicle for a greater participatory policy implementation process.

The formation of the Private Sector Foundation and its relation with Uganda Manufacturers Association, and hence the Forum through the various member organizations, will help build on and strengthen the existing dialogue between the government and the private sector. The Uganda Manufacturers Association under the National Forum initiative has tried to bridge the gap between public and private sectors on policies through its collaboration with the Private Sector Foundation. This has helped promote, protect and coordinate the interests of industrialists and other private sector actors in the economic development of Uganda.

Working groups have identified a number of issues that directly affect private sector involvement in food security. Those areas included improvement in research and extension services, strengthening financial support to producers, especially those producing for export, more focus on the issue of a living-wage, and improvement of infrastructure biased towards export development.

There is a need to emphasize the private sector's role in food security in one of the Working Groups at the next meeting. The Uganda Private Sector Foundation would be one agency that could advance this cause. While stressing investment promotion and export growth, the activities of the Forum nevertheless advance the cause of private sector involvement and food security.

The existence in Kenya and Tanzania of a similar Presidential Forum would be highly desirable.

**Role of USAID** Two private sector individuals interviewed stated that USAID/Uganda has been a positive force for improving the environment for private sector development in Uganda. These individuals expressed appreciation for the Mission's contribution. The Uganda government under President Museveni is very supportive of private sector development. Nevertheless, there are vested interests that do not always support the privatization process, in these situations a long-term effort will be required to create a free market system in Uganda.

## **5.6.2 Specific Projects Identified in Discussion With the Private Sector**

Several specific opportunities for direct private sector involvement in projects that would enhance food security were discovered during this research. They are outlined below.

### **5.6.2.1 Produce Marketing Board**

The Produce Marketing Board (PMB), located on Nalukolongo-Masaka Road, in Kampala with its storage and other related facilities throughout Uganda, is a parastatal organization that has been identified by the Government of Uganda as one of the institutions that should be privatized as soon as possible. Time is of great importance because of the vital role that the PMB plays in the Uganda food security system.

77



The grain storage complex, located at Jinja is of special importance to food security and represents an outstanding opportunity for the private sector to make very real contributions to regional food security enhancement. The following five pages show the grain drying and storage facilities plus the supporting truck and railroad installations. An estimated US \$300,000 investment would extend the railroad facilities from the PMB to the main rail line running from Mombasa to Kampala.

With this rail extension it would be possible to off-load bulk grain shipments in Mombasa and transport directly to the silos in Jinja where the grain could be cleaned and dried, if necessary, before storing. Substantial savings would result and the grain would be preserved until required with minimum loss. The grain would not be bagged until shipment.

Two separate private sector firms indicated a strong interest in acquiring the Jinja facilities. One firm reported that it had the financial support to purchase the facilities outright. The second firm could organize an investment group that would sell stock to other private sector firms that would share the facilities.

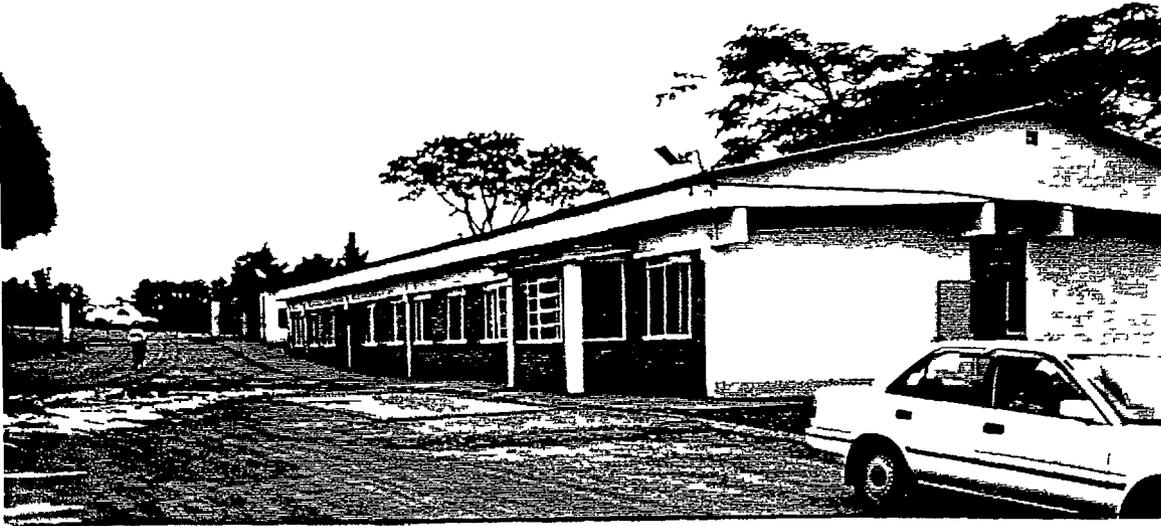
Of course, there are many problems that must be solved before privatization can take place. These are (1) the real market value must be established (replacement cost is much less than original installation cost), (2) there are PMB debts that must be dealt with, (3) provision must be made for the employees, and (4) there are a number of legal and administrative issues involved. Political consideration must also be taken into account.

The road from parastatal to private ownership and operation is a long one that requires expert leadership and cooperation from all that have, or will have, a vested interest. Therefore, it is recommended that an experienced consulting firm be employed to organize and expedite the privatization process. In addition, a "road map for successful and equitable privatization" study should be undertaken to identify legal problems inherent in the existing laws and proclamations and recommend an action plan. There are many ambiguities, conflicts and inconsistencies in the present laws that will cause problems in completing the privatization process. This matter has been discussed, in great detail, with the Executive Director of the Private Sector Foundation in Kampala, and the analytical work recommended above should be coordinated with the Foundation.

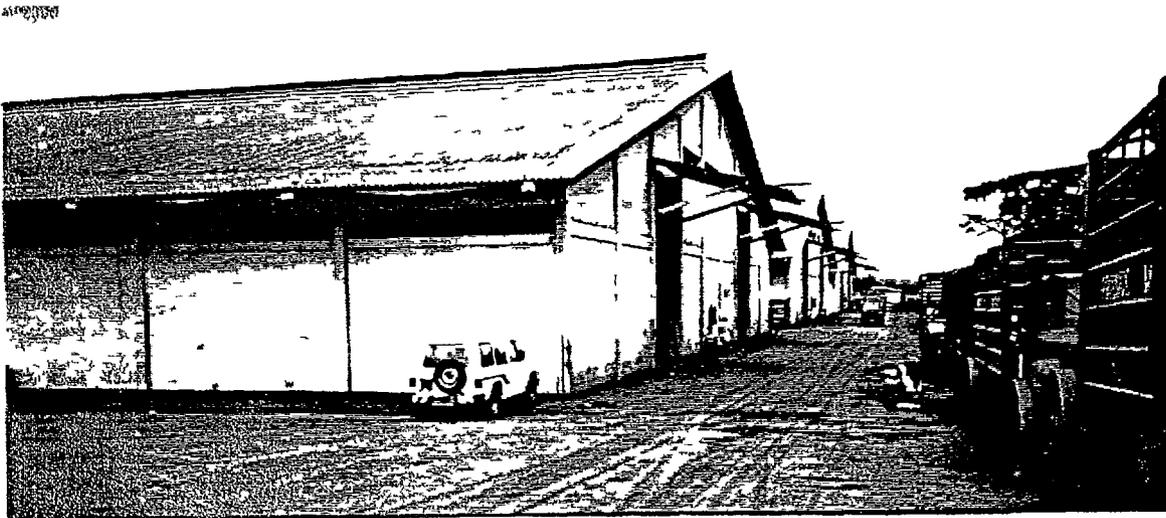
### 5.6.2.3 Uganda Maize Industries, Ltd

The Uganda Maize Industries, Ltd (UMI) facility, located on the outskirts of Kampala, is one of four Uganda Grain Milling Company subsidiaries that is to be privatized. The four are (1) Uganda Maize Industries, Ltd, (2) Uganda Millers, Ltd, (3) Uganda Feeds, Ltd, and (4) Bread, Ltd. While much smaller in scope than the Jinja silo complex, UMI is nevertheless an important facility, and when privatized it will play a significant role in providing food security for Uganda and the region. With the facility in private hands, the silos can be fully utilized to hold maize inventory. It is reasonable to expect that inventories will be purchased at harvest time, carried and sold from one harvest to the next. The resulting reduced price fluctuations and ready market for maize will result in increased food security.

PRODUCE MARKETING BOARD HEADQUARTERS  
KAMPALA, UGANDA



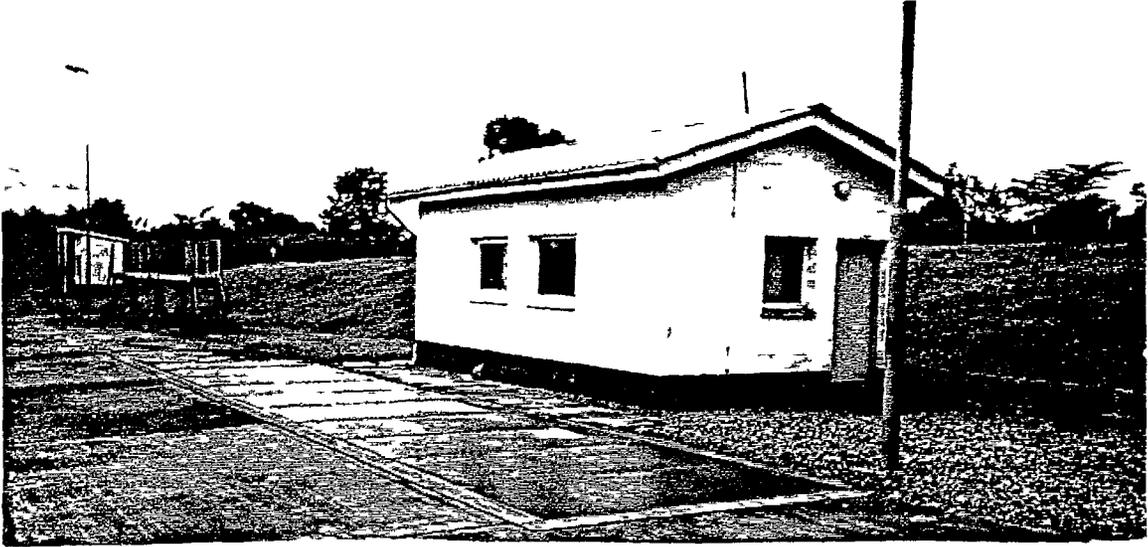
GODOWN STORAGE FACILITIES KAMPALA



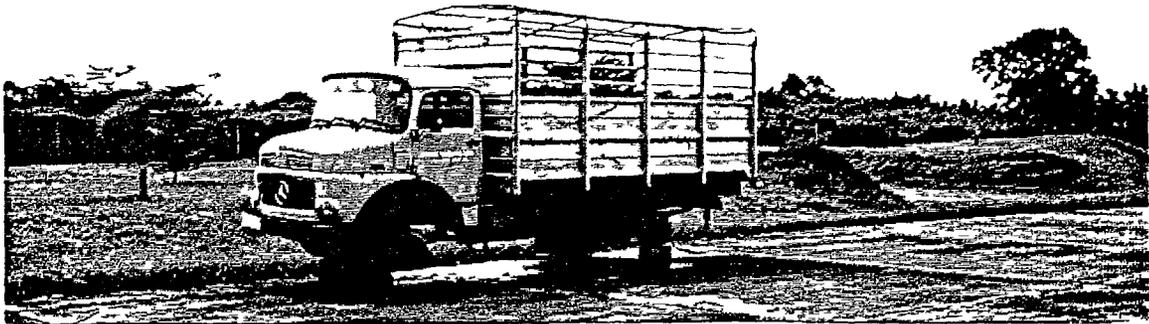
HOW DO YOU PLACE A VALUE ON THIS EQUIPMENT?



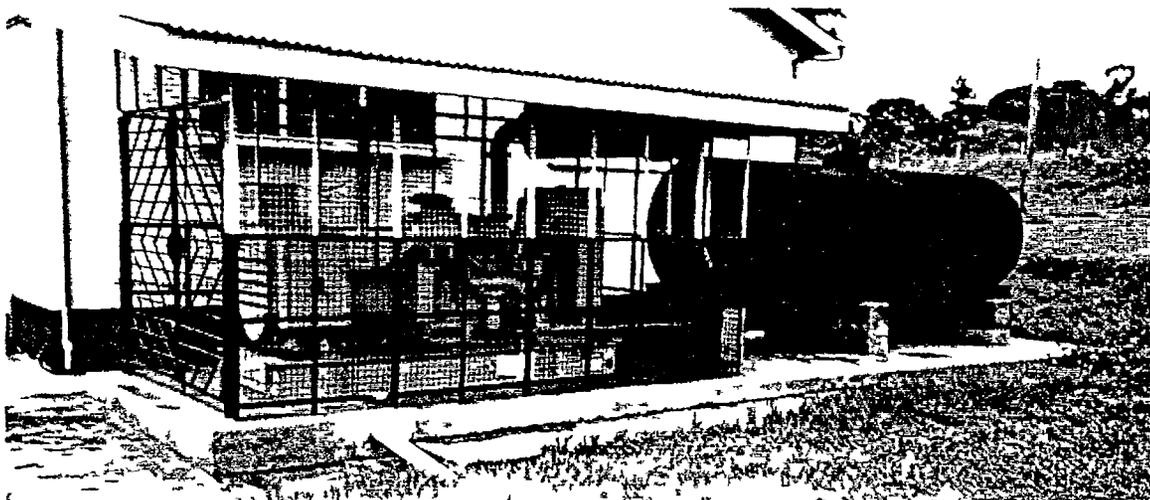
WEIGHT STATION FOR GRAIN ARRIVING BY TRUCK



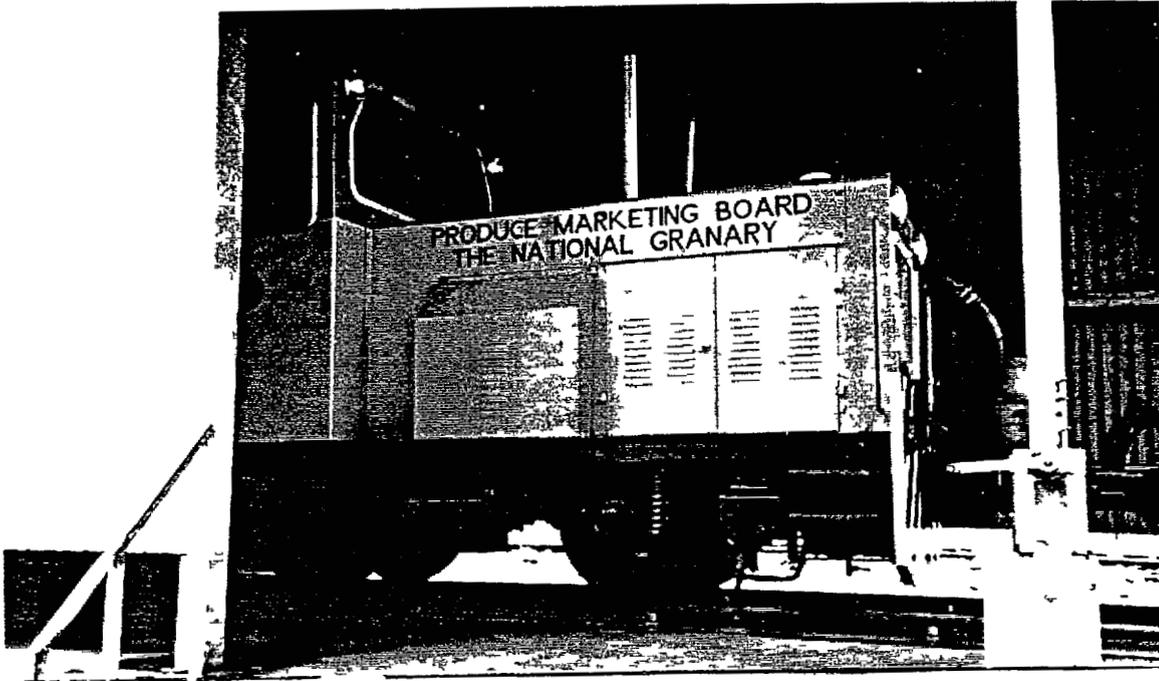
HOW DO YOU VALUE?



STAND-BY POWER PLANT



PRIME R R MOVER WHEN SHIPMENTS ARE IN-OUT BY RAILBOARD



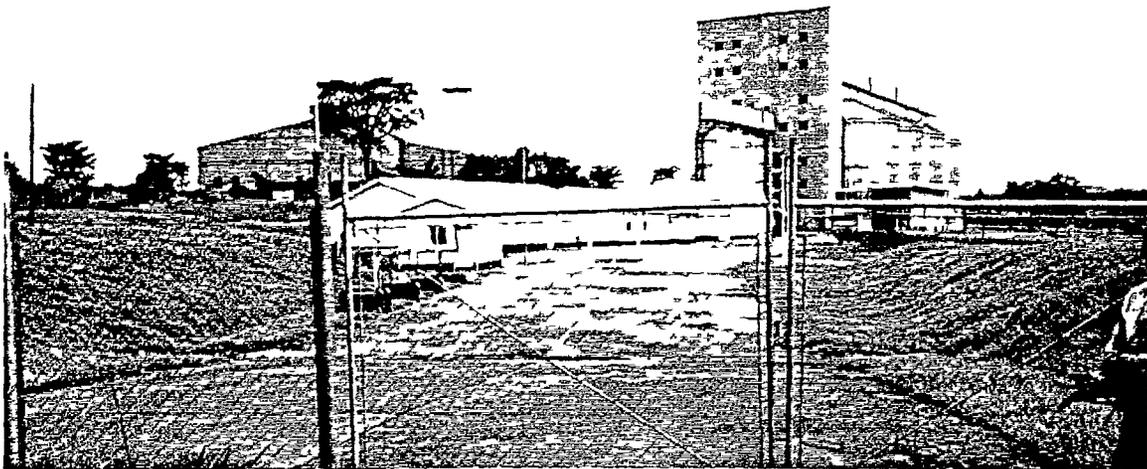
WEIGHING FACILITIES FOR RR SHIPMENTS



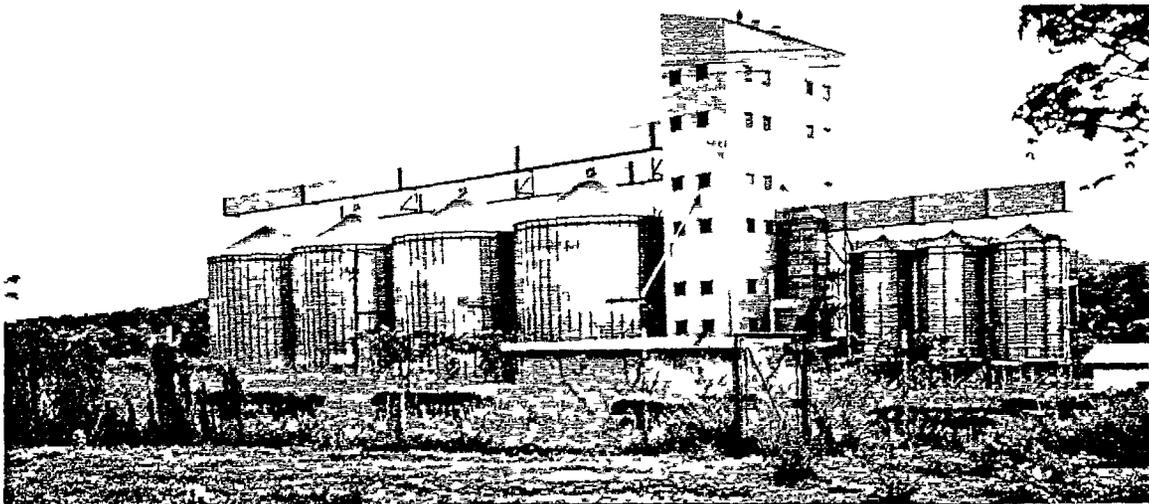
FROM THIS POINT INVESTMENT ESTIMATED AT USD 300,000 WOULD BE REQUIRED TO CONNECT WITH THE MAIN RAIL FROM MOMBASA TO KAMPALA



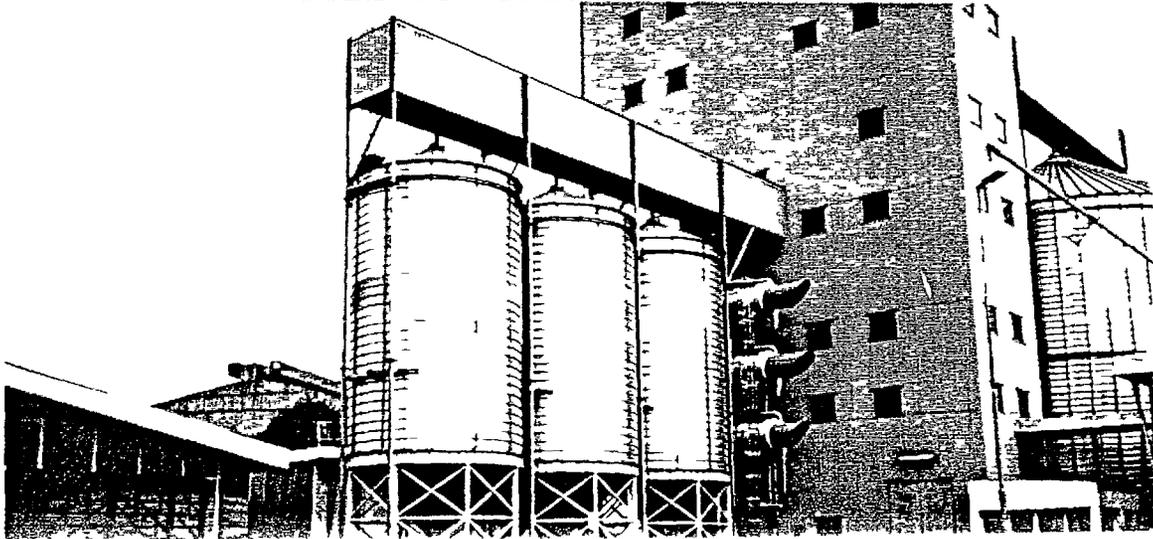
**MAIN ENTRANCE OF PRODUCE MARKETING BOARD FACILITIES  
LOCATED AT JINJA, UGANDA**

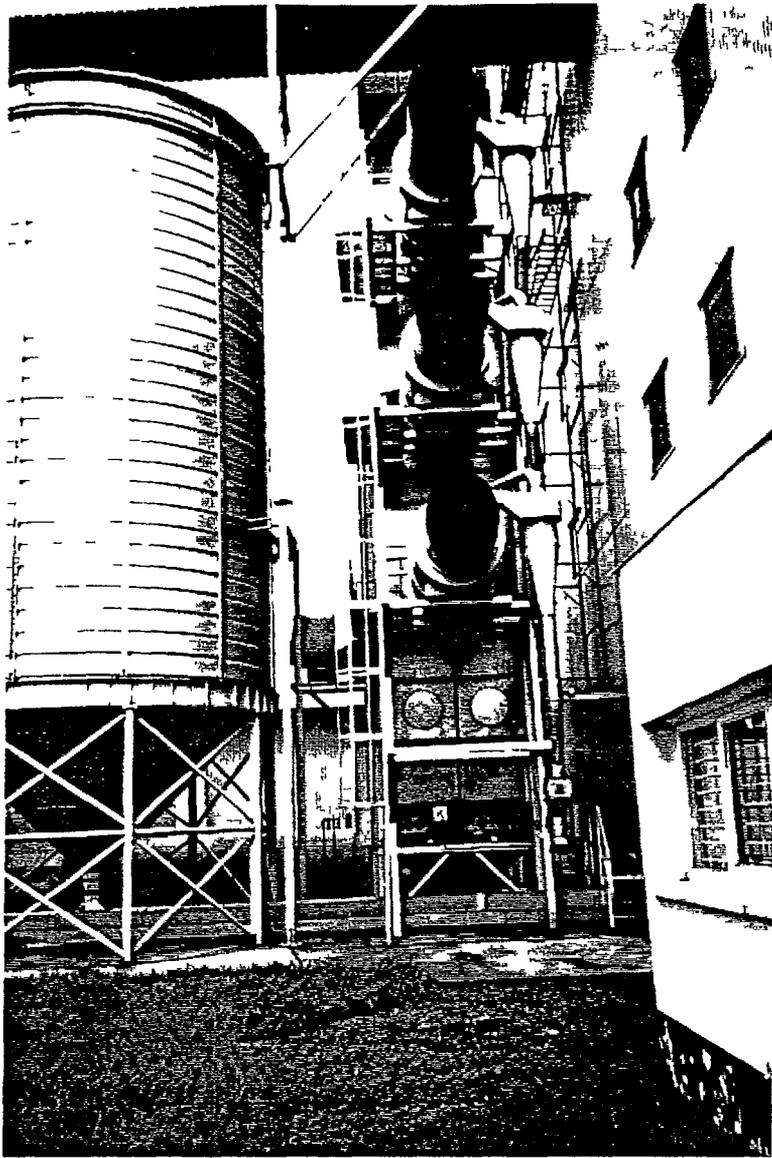


**REAR VIEW SHOWING DRYING AND STORAGE**



**FULL VIEW OF DRYING FACILITY**





DRYING FACILITY  
FOR GRAIN PRIOR  
TO STORAGE

THERE ARE EIGHT OF THESE  
SILO WITH AN ESTIMATED  
CAPACITY OF 20 000 M/T



The following two pages show the silos and the milling and loading installation. At the present time the facilities are underutilized, and it is expected that private ownership will correct this problem.

The Government of Uganda has employed a branch of a well-known international banking firm to organize and expedite this privatization process and to act as "the honest broker" in bringing all the parties together. A bank consultant is to identify an experienced investor, domestic or international, who will provide fifty-one percent of the equity financing required to purchase the facility. It is expected that this investor will provide ongoing operational management. One-half of the remaining equity should be sold to the general public with the remainder of the equity going to the employees under a plan to be established. Working capital to finance inventory and to provide for day-to-day operations was not discussed, but is central to the successful operation of the business. The majority equity investor could obtain a line of credit, perhaps from an international banking institution. There should be lessons to be learned here that can be applied to the Produce Marketing Board and its many facilities located throughout Uganda.

#### **5 6 2 4 Kawanda Agricultural Research Institute**

The Kawanda Agricultural Research Institute, located a short distance from Kampala, is conducting a research and development program to reduce post-harvest losses in the basic food crops grown in Uganda, i.e., cereals, legumes, root crops, horticultural crops and bananas. The objectives are to reduce post-harvest losses, improve the quality of the commodities, add value and reduce the drudgery of post-harvest operations. They are also developing drying machinery for both cereals and pulses and improved on-farm and village level storage facilities stressing non-chemical methods.

In discussion with officials at the research station, the private sector was identified as the best channel to distribute and sell the drying machinery. It is expected that the drying plants will be available for distribution in the near future, as the basic engineering has been completed. It is recommended that as soon as possible officials of the Kawanda Agricultural Research Institute meet with the Executive Director of the Private Sector Foundation to identify firms that would have an interest in distributing the drying plants. These plants will be ideal for small, private firms. The Foundation can also recommend contacts in Kenya and Uganda in addition to those identified by this activity. It is reasonable to expect that the viability of these plants should be determined by competent authorities. When this due diligence has been completed, and with positive results, manufacturing agreements should be established with firms that express an interest and have the capability. An example might be the Kenya Vehicle Manufacturers Ltd., as they manufacture not only vehicles, but also grain storage facilities.

#### **5 6 2 5 Food Science Department at Makerere University**

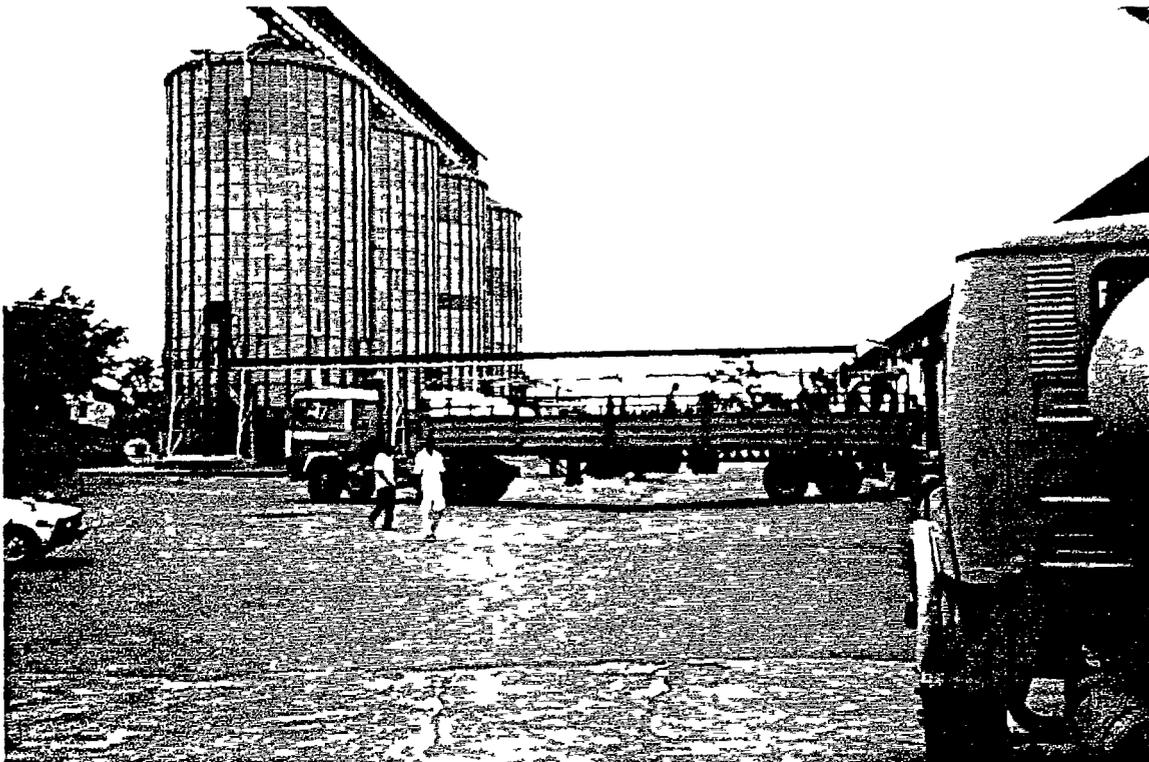
The Food Science Department at the Makerere University is working on solar drying of bananas. This effort needs additional support - technical and financial. Considering the large supply of bananas in many areas of Uganda, drying and processing bananas presents a good business opportunity for small and medium-sized enterprises.

To enhance the marketability of its banana processing technology, the activities of the Food Science Department should be coordinated with RECO Industries, a diversified food processing company in Kampala that specializes in quality food products for both the domestic and international markets. The firm has also developed a large out-grower system which assures small agricultural producers a stable and reliable market for fruit and vegetables. Cooperation between the Food Science Department and private sector firms such as RECO will make a very real contribution to food security.

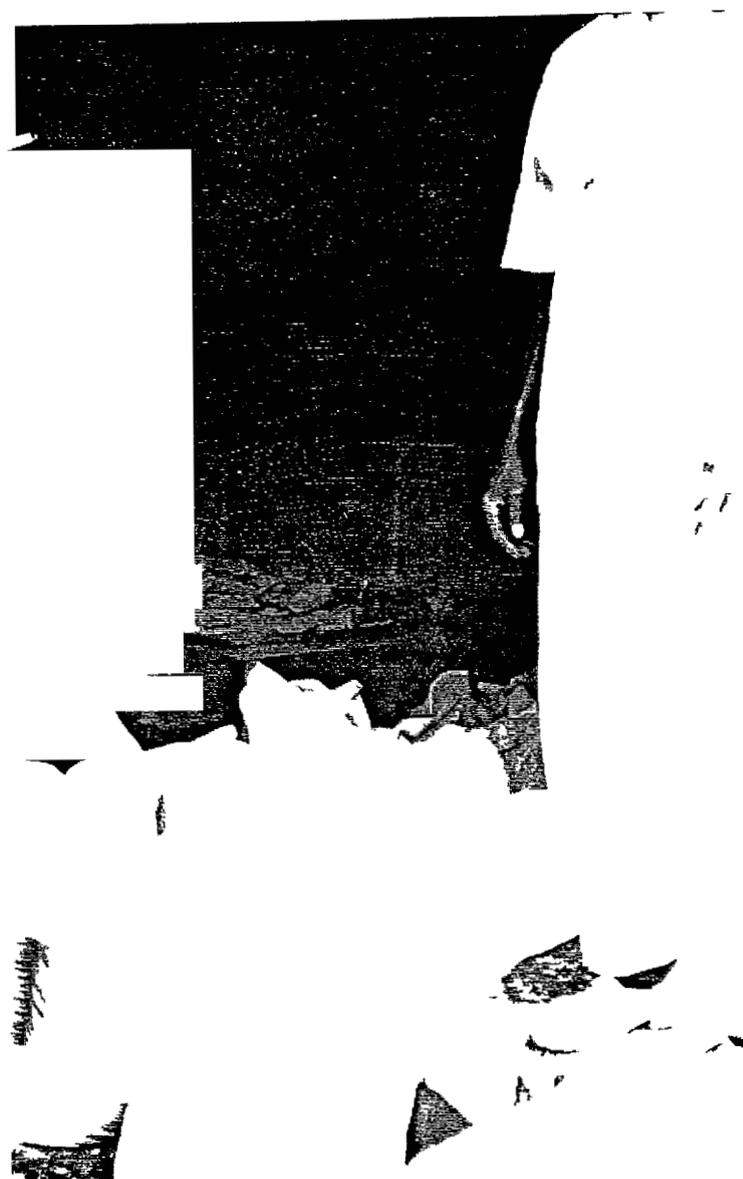
UGANDA MAIZE INDUSTRIES, LTD  
A PARASTATAL TO BE PRIVATIZED  
KAMPALA, UGANDA



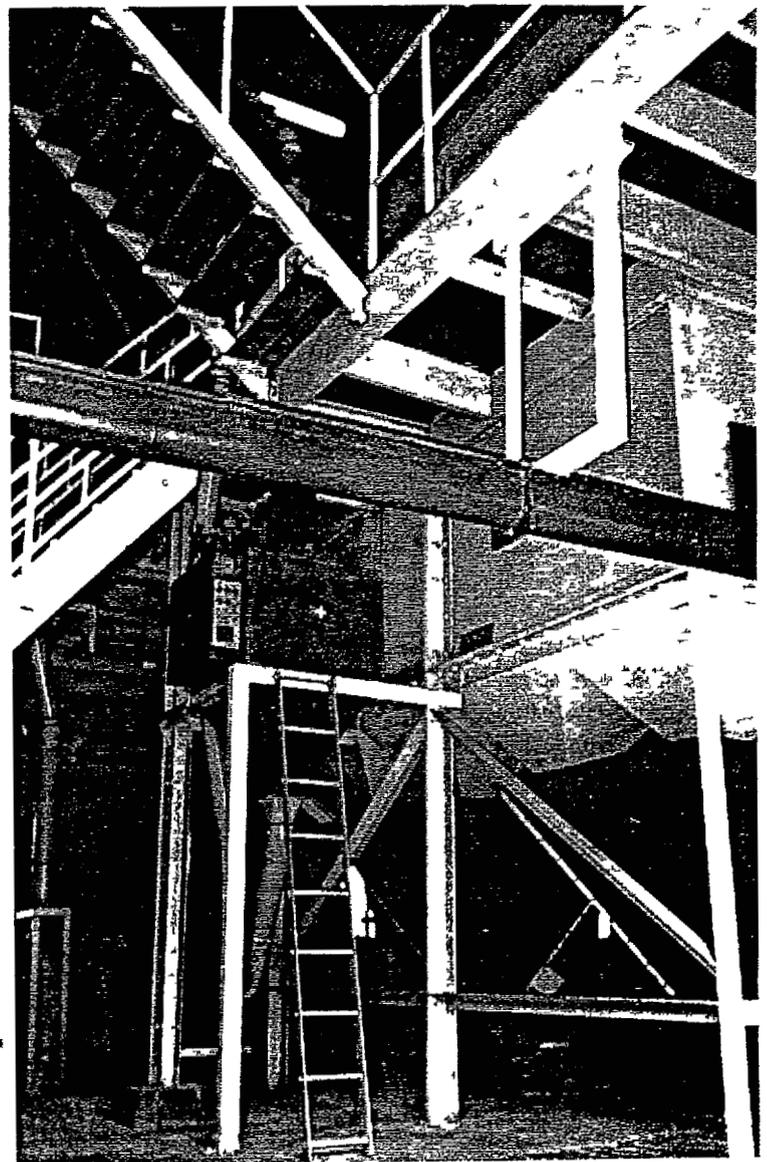
SILOS FOR PROPER MAIZE STORAGE AND TRUCK BEING LOADED WITH MEAL



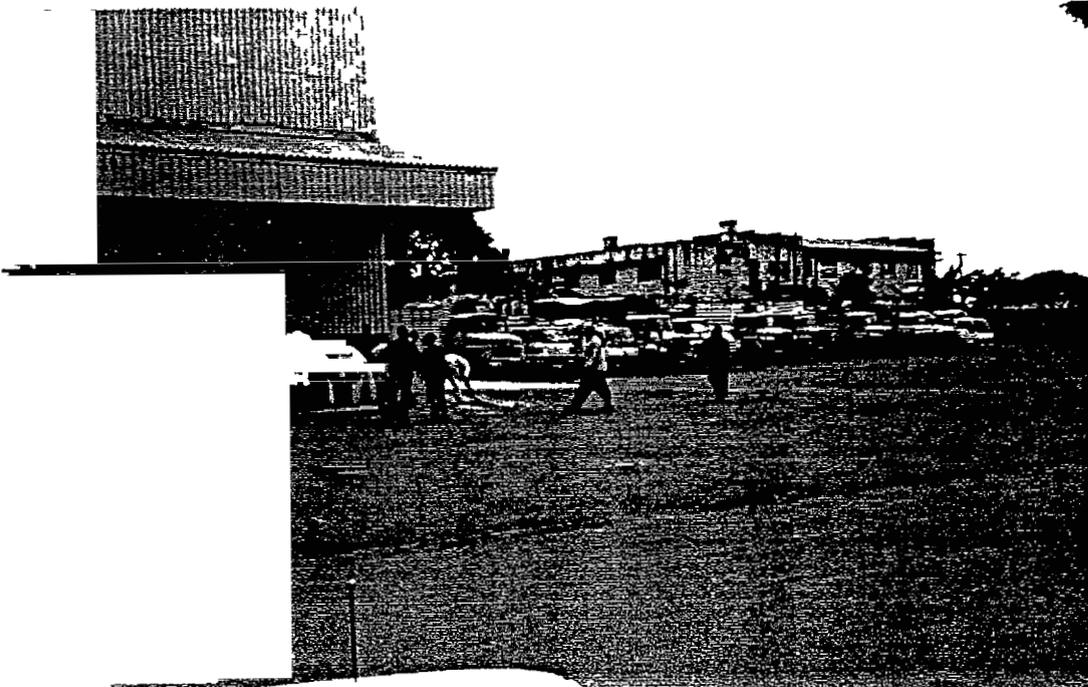
THE FINISHED PRODUCT



HOLDING BINS AND LEGS TO BAGGINGS, ETC



CENTRAL  
LOADING AND  
TRUCK PARKING





### 5 6 2 6 Economic Policy Research Center at Makerere University

The Economic Policy Research Center, located on the campus of Makerere University in Kampala, was established in 1993. It is charged with the following functions:

- a Undertake research which would enhance the national capacity for policy analysis and decision making,
- b Develop research programs covering diverse areas including macroeconomic, industrial, agricultural, population, public and private sector management and environmental policies in the interest of government parastatals, the private sector, NGOs and donor agencies,
- c Disseminate research findings through publications, seminars, workshops, short courses, etc ,
- d Develop close relationships with local and international research institutions, and
- e Establish links with foreign institutions able to provide research advice and joint collaboration in research

In discussions with the Executive Director of the Center, the need for a specialist on private sector development was identified as something of special importance to the Center and to Uganda. This is needed due to the transition from government-controlled enterprises to a "free market" economy with the concomitant redevelopment of the private sector. The Executive Director would like a technical consultant to work in the Center for a two-year period to fill this need. This person could be seconded to the Center by a large private sector firm.

### 5 6 2 7 Dairy Corporation

The Dairy Corporation, a parastatal organization, does not have the facilities to produce powdered milk. In discussions with the general manager and the field manager, it was reported that there is demand for powdered milk, especially in the dry season, and that Uganda income levels are high enough to purchase this product. It is suggested that a major effort be made through the Uganda Investment Authority, Agriculture Division, to identify an equity investor with the ability to do a feasibility study on, finance the construction of and provide technical management for a powdered milk facility. The Uganda Maize Milling privatization project may provide useful guidelines. The Private Sector Foundation could help identify a private consulting firm.

USAID/Uganda is very active and knowledgeable about all of these opportunities and can also provide guidance.

### 5 7 The Uganda Private Sector Core Team

Several individuals were identified in Uganda who have good potential to form the Uganda Private Sector Core Team. They are listed in Appendix A. Given the earlier stage of development of the private sector in Uganda and the experience that the Ugandan government has in working with the private sector to enhance the enabling environment (e.g., the Uganda National Forum), it is recommended that appropriate government individuals also participate on the Uganda Core Team.

Since activity time was limited in Uganda (two weeks) and the Core Team needs to be very carefully selected and organized, no action was taken beyond identifying potential members and getting their expression of interest. However, it is believed that the proposed Core Team members from Uganda would be willing to participate in the regional Private Sector Role in Food Security Enhancement meeting, and that participation should be encouraged, and if necessary financially supported.

## 6 0 RECOMMENDATIONS

This GHAI/Private Sector Activity has generated, in all three countries, a very keen interest in enhancing the role of the private sector in food security enhancement. There are individuals in all three countries who are enthusiastic to participate in a collective effort to enhance the role of the private sector in food security. These individuals and firms must not be disappointed by a lack of follow through, and communication with all concerned must be maintained.

The momentum that has been generated by this activity must be preserved and formal direction given to the objectives of the project. To insure sustainability, a secretariat or coordinating organization must be established and operated for approximately a two-year period. It is not envisioned that this will be a large organization, but rather a very small office that will maintain contact with all concerned, provide ongoing direction and provide valuable information to all involved. It will be the main coordinating point and linkage between existing private sector, donor and government organizations, and will help develop and sustain a focus on enhancing the role of the private sector in food security. After the two-year period, it is envisioned that the central organization will be totally funded and directed by the African participants. A limited budget for this two-year period should be sought from one or more donor institutions with GHAI/Washington and REDSO/ESA taking the lead positions.

### 6 1 Private Sector Food Security Conference

A conference is planned under the aegis of REDSO/ESA with the Core Teams from Uganda, Tanzania and Kenya participating. In cooperation with leaders from the Core Teams, REDSO will develop an agenda for that meeting. The logistic arrangements should be completed and all invitations transmitted by REDSO. Conference attendees can elect their own leadership and consider establishing a permanent secretariat. The objectives of this conference will be to allow the core groups to identify, discuss and evaluate constraints they face in fully developing private agribusiness enterprises. Full development of private sector agribusiness enterprises in Kenya, Uganda and Tanzania, will lead directly to food security enhancement. Full discussion of constraints, inhibiting factors and problems that are common to all should lead to the identification of a means to overcome the constraints. Enhanced cross-border trade and cross-border investment will, per se, increase food security in all three participating countries. Recently, the Governments of all three countries have taken steps to restore the free and unlimited convertibility of currencies. This is a major accomplishment, and the officials of all three countries should be congratulated. This factor alone will contribute to increased investment and trade. A major focus of the Conference should be to determine the strategies and opportunities for stimulating agribusiness investment, because increased agribusiness investment is the ultimate key to increased food security.

### 6 2 IGAD

A dialogue should be established with IGAD to determine if that regional organization is interested in and capable of assuming a leadership role in stimulating private sector involvement in food security enhancement. IGAD's interest is confirmed by a speech made by Dr. Tekeste Gebray at the Nairobi ESABO Conference in May. (See Appendix C) Is it possible that some IGAD funds might be available to support or partially support the creation and ongoing activities of a central secretariat? IGAD should have the potential to eventually lead a GHA wide initiative of active involvement of the private sector in food security enhancement.

### 6 3 Most Likely Private Sector Participants

It is important to note that the more likely private sector participants in GHA food security enhancement will be larger agribusiness firms that have the available time and resources, and longer term orientation to devote to the subject. Managers of these firms also have access to the government decision makers, the technology and the key private sector

contacts needed to lead a private sector initiative. In the past USAID has been hesitant to work with larger agribusiness firms in fear of the perception of helping those who need it the least. That hesitancy will have to be overcome for this initiative to be successful.

### 6.3 Next Steps

Ethiopia, Eritrea and Somali Land have not participated in this activity. Different reasons have been advanced for their lack of participation. IGAD and the GHAI should address this issue and determine how additional countries can be effectively and safely included in this activity. While work in Kenya, Uganda and Tanzania offered useful insights into how the private sector can become actively involved in food security enhancement, these three countries do not have the magnitude of food security problem as do others in the GHA. For this activity to positively impact the GHA wide food security challenge, an assessment must be made of how the lessons learned and the implications to GHAI and USAID Missions SOs and Results Packages can be extended to countries at the heart of the GHA food security challenge. This will require work in Ethiopia, Eritrea and Somali land.

The outstanding leadership provided by REDSO/ESA has helped create this opportunity for regional cooperation in private sector involvement in food security enhancement, and REDSO's participation is essential to the long-run success of the endeavor.



**APPENDIX A**

## Agenda for Meeting with Kenya Private Sector Core Group

<b>Welcome - Mr M Klesh, Regional Private Sector Advisor</b>	<b>10 00 a m</b>
- Introductions	M Klesh
- Explanation of USAID/REDSO role in GHAI	R. Harvey, Dep Dir , REDSO
- Review of GHAI Activities conducted so far USAID/Washington's perspective	M Klesh J Carbone
<b>Discuss Strategies to Increase the Role of the Private Sector in Enhancing Food Security in Kenya and the GHA</b>	<b>10 15 a m</b>
- Introduction	N Mwaniki
- Opportunities for Investment in Privatization	
- Opportunities for Investment in Processing	
- Opportunities for Investment in New Technologies	
- Opportunities for Investment in Storage	
- Opportunities for Investment in Commercial Agriculture	
<b>Summarize Discussion</b>	<b>11 15 a m</b>
- Propose Plan of Action	N Mwaniki
- Reaction from USAID	R. Harvey, Others
<b>Close Meeting</b>	<b>11 30 a m</b> R Harvey, Others
<b>Attending</b>	M Klesh H Ogola D Busolo A Gwaderi K Eubanks J Carbone N Moon D Percival J Kashangaki F Muya

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Abt Associates Inc.

**APPENDIX B - Contacts**

85



Abt Associates Inc.

## Interviews Conducted in Tanzania

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**APPENDIX C - IGAD Speech**

IMPROVING FOOD SECURITY IN THE IGAD SUB-REGION  
A CRITICAL ROLE FOR THE PRIVATE BUSINESS SECTOR

Invited Paper Presented at the Eastern and Southern Africa  
Business Organization (ESABO) Integration Conference

Nairobi 14-15 May, 1996

IGAD

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## 1 0 INTRODUCTION

### 1 1 Background

1 The Intergovernmental Authority on Development (IGAD) covers seven countries of the Horn of Africa namely, Djibouti, Eritrea, Ethiopia, Kenya, Somalia, Sudan and Uganda. The IGAD sub-region is characterized by arid and semi-arid climate with 46 percent of the total land area (5.2 million km<sup>2</sup>) receiving less than 400 millimeters of annual rainfall. The sub-region is prone to recurrent severe droughts which hamper agricultural and livestock production, the source of livelihood for the vast majority of the roughly 130 million people of the sub-region. This year approximately 6 million drought affected and displaced persons are dependent on relief food. Over the last 15 years or so per capita food production has been on the decline due to a number of factors both natural and man-made. Rampant droughts, civil strife and inappropriate macro-economic policies have not allowed agricultural development to match population growth. The economies of the sub-region have stagnated leading to further poverty, which has put nearly half of the population at risk of reduced access to adequate food. Most of the countries of the sub-region are among the poorest in the world and consequently most food insecure.

### 1 2 Definition of food security

2 The need to have enough food first attained a global dimension in 1974 when the World Food Conference issued the Universal Declaration on the Eradication of Hunger and Malnutrition. At that time it was believed that all that countries needed to do to eliminate hunger was to increase food production. Many countries adopted a policy of food self-sufficiency (i.e. increasing national food production and thereby reducing the dependence on food imports) as means of guaranteeing food for their people. However, national self-sufficiency in internationally tradable foods is an efficient policy only if the country has a comparative advantage in producing those foods. In the 1980's, particularly as a result of Sen's (1981) authoritative publication on poverty, famine and food entitlement, it became clear that food security has another socioeconomic dimension beyond the physical availability of enough domestically produced or imported food. People must have the means to access the food.

3 Food security has dozens of definitions, with none of them being universally agreed upon. The World Bank (1986) defines food security as "access by all people at all times to enough food for an active and healthy life". The definition of food security raises a crucial issue of how households can make food available by themselves. Food security requires that households have at all times security of guaranteed access to food either in kind or in cash. For households that depend on own farms for their food supply, increased food production is a legitimate food access goal, while for households that are largely dependent on the market for food, improving household cash incomes is the most appropriate food security goal to pursue. The two food security goals are not mutually exclusive and may be pursued concurrently. In both cases, however, there is need to maintain household assets which can be liquidated or exchanged for food when there is a food shortage. Failure to sustain a sufficient level of assets in times of persistent household food shortages leads to exhaustion of other non-economic coping mechanisms. If this scenario is existent in many households, it can lead to mass starvation characteristic of catastrophic famines. This means that households must have assets that can guarantee them economic access to food and serve as a hedge against possible prolonged food shortages.

### 1 3 Components of food security

4 Despite the conceptual difficulties in defining food security, there is a general consensus with regard to its components. These include food availability and stability on the supply side and economic access to food and nutritional concerns on the demand side.

### Availability

5 The physical availability of food is a necessary condition for food security. Households, as well as the entire nation, need to be guaranteed of physical availability of food at the time it is required. There are two ways of making food available: either through own production or obtaining from others. The choice between the two options should be guided by the principle of comparative cost advantage, i.e., food production should be left to those individuals producing at comparatively lower unsubsidized cost, and in return others would offer other commodities to be freely exchanged for the food, following the same principle.

6 At the national level, food availability is achieved through domestic production and importation of various food commodities. It is important to carry out a comparative advantage study to provide guidance on the profitability to the economy as a whole of producing or importing different types of agricultural produce in different areas of the sub-region at different times of the year. For example, given the relay-type of cropping seasons between Eastern and Southern Africa, whereby the growing season in Eastern Africa starts at the end of the growing season in Southern Africa and vice versa, there should be a comparative advantage to the sub-regional economies to trade in surpluses of each sub-region in either direction at different times of the year.

7 Although ensuring food availability through commercial imports and food aid is an essential element of food security at the national level, it has been convincingly argued by USAID (1996) that food security does not involve provision of food aid to vulnerable populations, who are unable to meet their own food needs. Households that are reliant on provision of food assistance are not food secure.

### Stability

8 The notion in the food security definition that food must be available to all people at all times, implies that food supply must be stabilized in spatial and temporal terms. This calls for an efficient marketing system to move food from surplus producing areas to deficit areas, and/or storing surpluses for release to the market during the lean periods. Temporal stabilization of food supplies has the advantage of stabilizing food prices, particularly considering that unstored food surpluses cause farmers to curtail production as a result of lowered prices, thus putting future food availability at greater risk.

9 The distributional issues of food supply stabilization require considerable investment in marketing infrastructure including transport and storage facilities. Although arrangements for adequate reserves at national and regional levels are indispensable for food security, reserve stocking does not truly constitute food security, as it does not address the economic access aspects of food security.

### Access

10 There can be no real food security, national or otherwise, unless the problem of economic access to food at the household level is solved. At the national and subregional levels, food security programmes should not only be geared to boosting domestic agricultural production or guaranteeing meeting of food production shortfalls through imports to improve food availability per se, but also to economic access to food through promotion of significant investments in various sectors of the economy to raise per capita income and improve income distribution. Promotion of labor intensive industries in the rural areas and asset-creating programmes of rural public works can make a significant contribution to employment and income generation for the rural poor.

### Health/nutrition

11 First and foremost, food accessed by all the people must meet minimum quality standards. Unwholesome foodstuffs, e.g., beef carrying disease agents like anthrax must not be presented for consumption. Similarly, dependence on foods which are deficient in essential nutrients can lead to serious health problems. Goitre, caused by lack of dietary iodine and Kwashiorkor in infants caused by protein deficiency, are common examples of serious diseases resulting from nutritional deficiencies. There is need to institute effective food quality controls, and to provide targeted Home Economics training so that all people can have quality balanced diets that can help an individual live a healthy and productive life.

## **2 FOOD SECURITY AND THE PRIVATE SECTOR**

### **2.1 Investment potential**

12 Food security is inextricably linked to economic development. Any private business initiative that can lead to economic development of the IGAD sub-region is in itself a significant contribution to the improvement of food security. Most countries of the sub-region are in the process of restructuring their economies, with state-owned enterprises being privatized, thus giving way for the emergence of a strong private sector. In this regard, the private sector should be encouraged to invest in all sectors of the economy, especially industry, mining, the service sector and large-scale mechanized farming.

13 The IGAD sub-region may suffer large crop production shortfalls, but it enjoys a huge livestock and fisheries potential. The private sector can engage in cattle ranching and fattening for export earnings, dairying, animal health and pasture development. IGAD countries are endowed with a very long shoreline and possess some of the largest lakes in Africa. The potential for development of these resources, particularly in an increasingly health-conscious world, is there to be exploited. Member countries can benefit through obtaining an extra dimension to become food secure.

14 It should be stressed that the appropriate choice of where to invest one's money would depend not only on the resources available to the investor, but also on a careful study of the comparative cost advantage and financial and social cost-benefit analysis.

### **2.2 Supporting food production and employment creation**

15 Food production in the IGAD sub-region is dominated by millions of small-scale private operators including smallholders, artisanal fishermen and pastoralists. Their enterprises are characterized by meager capital input, with the business and the household operated as one entity. Although smallholders contribute the biggest share to the subregion's food supply, they are ironically also the most food insecure due to poverty. Because they possess meager assets if any they are unable to cope with shortfalls in food availability. The larger-scale private sector could greatly contribute to the improvement of food security in the sub-region by addressing itself to the problem of rural poverty. The following is a discussion of some areas that can be considered by potential private sector investors in contributing to the improvement of food security in the sub-region.

### Technological inputs

16 One of the main constraints to agricultural production is the poor supply of agricultural inputs. Provision of services to enable smallholders use technological inputs can considerably increase smallholder farm production and incomes. For example, Ethiopia was able to attain near self-sufficiency in cereals during the 1995/96 production year.

largely due to significant improvements in the farm inputs delivery system. The private sector should participate more actively in the timely delivery of farm inputs. These include supplying improved seeds and other planting material, fertilizers, agro-chemicals, and small tools and machinery. Provision of equipment for small-scale irrigation for cash crop production would also go a long way in alleviating rural poverty in the dryer agricultural areas of the IGAD sub-region.

#### Small-scale businesses and industries

17 Creation of alternative employment opportunities for the landless laborers and rural poor by promoting small household businesses like bee-keeping, poultry farming, fish farming, flower gardening, horticulture, and dairying would be an important step in improving rural incomes. The private sector could also contribute to the alleviation of rural poverty by operating small primary processing equipment like oil presses, mills and cotton gins. Small-scale milk and fish processing plants could also be appropriately located in rural areas to raise the incomes of pastoralists and fishing communities. The outputs of these rural enterprises can then serve as raw materials for the larger secondary processing and packaging industries located in the urban areas.

#### Rural finance

18 Technology appropriation to improve production cannot be achieved without the support of financial institutions. Lack of credit facilities at planting time is reported each year to limit the expansion of the acreage planted to food crops in some of the growing areas of the IGAD sub-region. Smallholders and other rural entrepreneurs need to have access to credit in order to improve their business operations and capital outlay. The private sector could consider investing in the operation of village banks, as another way of contributing to the alleviation of rural poverty.

### **2.3 Participation in internal and external trade**

19 The easiest point of entry for the private business sector into the food chain is at the distribution stage, because it is a typical commercial activity involving buying, transporting and selling. Food production in the IGAD sub-region tends to be concentrated in certain production zones, while the other areas are in deficit. Also the high rainfall variability and localized droughts make food production highly variable within each member state. There exists an enormous potential for internal and intra-regional trade in grains and other food items in the sub-region. There is, for example, an untapped potential for exporting malt barley from Ethiopia to the brewing industries of Kenya, Uganda and Tanzania. In planning their agricultural import/export businesses, the private sector investors should make use of comparative advantage studies in identifying the most profitable items to produce and/or import in given localities and the most cost effective trade routes to follow.

20 The poor state of roads in the IGAD sub-region is perhaps the biggest constraint to food trade. Transport costs are a crucial determinant of the viability of the major potential cereal trade routes, due to the long hauls involved, the high bulk to value ratios of cereals, the poor quality of the basic transport infrastructure and inadequate national transport fleets. There is an urgent need to improve the roads connecting member states in order to reduce transport costs and raise marketing efficiency.

21 The private sector can play an important role in averting famine in the IGAD sub-region by working in partnership with the donor community to supply locally purchased relief food. As global food aid resources have dwindled drastically in recent years, there will be an increasing need for the private sector to participate more actively in the sourcing and transportation of relief food in the sub-region.

### 3 0 THE ROLE OF IGAD

#### 3 1 IGAD Mandate

22 After nearly 10 years of IGAD's existence, it became necessary to refocus and expand the Organization's mandate, functions and structure Meeting in Addis Ababa in April 1995, the IGAD Heads of State Summit moved to revitalize the Organization and expand cooperation among member states in the following areas

- harmonization of policies in regard to trade, customs, transport, communications and marketing infrastructure,
- creation of an enabling environment for foreign, cross-border and domestic investment as well as cooperation in and promotion of research in science and technology,
- creation of mechanisms for the enhancement and coordination of food security, environmental protection, and natural resources development, and
- increasing the capacity of countries of the sub-region in the prevention, management and resolution of both inter- and intrastate conflicts through dialogue

The specific programmes and projects to be undertaken by the revitalized IGAD will be developed in a series of sectoral meetings to take place in June 1996 in Addis Ababa

#### 3 2 Support for private sector contribution to food security

23 The above areas of the expanded IGAD Mandate are of prime importance to the attainment of food security in the sub-region IGAD has been mandated to harmonize member states' policies and strategies in the bid to attain economic development The member state's resolve to coordinate and harmonize their policies is further reflected in the Declaration of IGAD Council of Ministers on Food Security issued in Nairobi in March 1996 as part of the preparations for the World Food Summit which will take place in November 1996 in Rome

24 IGAD is charged with the responsibility of enhancing sub-regional trade integration through harmonization of member states' trade policies and coordinate efforts to improve the marketing infrastructure IGAD will also spearhead the advocacy for trade liberalization in the sub-region

25 Information is essential for efficient marketing IGAD has started implementing a two-year Market Information System Project for Food Security The Project is financed by the Government of Italy to a tune of US\$ 1 5 million and it is executed by FAO It will support the generation of price information and a sub-regional supply and demand analysis for the main staples in the sub-region

26 IGAD will also promote sub-regional cooperation in agricultural research and training to boost food production By forging a strong partnership with the international community, the revitalized IGAD should be able to attract donor support, particularly within the framework of the existing international conventions like L=6 IV and the United Nations Convention to Combat Desertification (CCD), for implementation of its sub-regional programmes

27 It is well recognized that where there is no peace and security, it is very difficult to attract investors Through IGAD, it will be possible to address the critical issues of conflicts, which have contributed immensely to the economic under development of the sub-region

#### 4 CONCLUSION

28 As a confederation of chambers of commerce and industry with the objective of enhancing private business initiatives through promotion of trade and investment in various sectors of the economy, the Eastern and Southern African Business Organization (ESABO) has a crucial role to play in improving food security in the sub-region. The more the private sector plays an active role in the development of our economies, the healthier will be our socioeconomic well-being, and the more food secure will our subregion be. In pursuing this endeavor, IGAD sees ESABO as an indispensable partner.

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**APPENDIX D - SEFARMS**

### **The SEFARMS Association**

The development of SEFARMS is conducted through association - SEFARMS Association. From inception, it was realized that if the organization was going to be true to itself - that is - achieve sustainable self reliance and at the same time provide support to women's effort in commercial farming, a separation of business activities and development activities was necessary.

#### **Objectives of the Association**

The Objectives of SEFARMS are as follows

- Pool the resources of the women together in the buying of farm inputs and therefore benefit from economies of scale by bulk purchasing
- Collectively achieve market economies scale by bulk grading, storage and transport of the coffee from our members to the market
- Through SEFARMS, create a revolving loan scheme that will provide agricultural finance through seasonal loans
- SEFARMS become a forum for discussion on farming and a center for soliciting extension services in agribusiness - in form of farm management and application of appropriate technology
- Generally demonstrate that women, like their male counterparts, can productively manage farms commercially and in the process contribute to their economic emancipation

#### **Organization and Management**

The association side of SEFARMS is run by a Supervisory Council of Directors which is appointed from among the members. The Supervisory Council of Directors is headed by the Chairperson. Besides these directors, the association has a Treasurer, a General Secretary and four specialized five-woman Committees. The committees are a very important part of the decision-making process. The four committees are (1) the Membership/Registration Committee, (2) the Development and Investment Committee, (3) the Audit Committee, (4) the Discipline and Debt Recovery Committee.

#### **Membership in the Association**

SEFARMS is a grassroots organization which was founded to support women's efforts in commercial farming. Membership is exclusively for women in farming. These are women who own or tend small plots of coffee and other forms of arable crops. The association is cooperatively owned by Associations of Women Farmers (comprised of smallholder farmers, professional agricultural and veterinarian Women's Associations). To date SEFARMS has over 330 member farmers - 85 percent of whom are in coffee farming. Other farmer members are in poultry, piggery, vegetable, cereal and dairy farming. The number is likely to grow to more than 1000 by the year 2000.

There are no restrictions in becoming a member of the association. Membership is open to all women farmers. There is a small annual membership contribution which all members have to pay. This money contributes to the cost of administering the association.



Abt Associates Inc.

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In terms of geographical spread, the Association reaches out to farmers with 80 km radius of the Mbeya town. In concentration, farmers are within 2 - 5 km apart.

SEFARMS is a 100 percent women members managed organization. Members participation in SEFARMS is through their associations. They get to vote for the women who will be in the Council of Directors which in turn decides on policy and approves the activities the organization carries out and the expenditure of the income generated by the demonstration farm. They attend meetings, particularly Annual General Meeting, where policies are decided. Members are also involved in specific activities within the association - there are forums and programs for home economics, health and nutrition.

**APPENDIX E - Statement of Work**

## Statement of Work

### Strategies for Increasing the Role of the Private Sector in Enhancing Food Security in the Greater Horn of Africa

#### Purpose

The purpose of this Activity<sup>11</sup> is to help design, initiate and facilitate the development of an African led Program<sup>12</sup> for enhancing food security in the Greater Horn of Africa (GHA). The Program to be developed will identify, and begin the implementation of, ways in which the private sector can play a significant role in alleviating the important constraints to an increased supply of food in food deficit GHA countries. The Program will be African-led and result in African solutions to sustainable food security. Extensive and intensive participation of the African private sector in this effort will equip participants to take a more pro-active role in crafting policy reform and implementing changes in the way they operate which will, in turn, contribute to food security. More specifically the Program that this Activity will initiate and facilitate will a) define and prioritize the constraints and challenges affecting GHA food security that the private sector can help resolve and b) develop strategies, ideally with regional applicability, which increase the involvement of the indigenous, and to a lesser extent expatriate, private sector in overcoming food insecurity in the GHA countries with the most serious food deficits. The focus of this Activity, and the Program it will facilitate, is on the enhancement of longer term food security rather than emergency prediction and response.

#### Background

Sustainable food security -- defined as adequate and consistent availability of nutritional food -- in the GHA can best be achieved by the enhanced participation and performance of the African private sector in input supply and local procurement, processing, and distribution of food. This rationale needs to be expanded, communicated and well understood by the parties to be involved in the Program that this Activity will facilitate.

While the private sector has been engaged in food production, food processing and related agribusinesses in East Africa for many generations, the presence of various constraints combine to greatly lessen the effectiveness of its contribution to overcoming food insecurity problems in the GHA. These constraints, which vary by country, may relate to government policies and practices, the lack of supportive infrastructure and institutions, suboptimal operating procedures and practices of agribusiness companies, and the difficulties of exporting to the highly competitive world market.

The approach this activity is utilizing signifies a new way of thinking and doing business. USAID and Greater Horn of Africa Initiative (GHAI) leadership is shifting away from a government interventionist approach to development to one that will concentrate support on the African private sector, operating in a free and competitive market, as the engine for driving food security enhancement in the GHAI. African businesses will be taking the leadership position in setting the GHAI food security agenda, and establishing a market driven Program for sustainable development.

The USAID/W Task Force of the GHAI recognizes the above and in pursuit of overall GHAI objectives has transferred funding to the Global Bureau to support an Activity that will facilitate GHA Missions and other interested entities in Africa to come together to address these issues.

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<sup>11</sup> Activity refers to the work to be undertaken under this SoW to help African entities design, initiate, and begin implementation of an African led Program to involve the private sector in food security enhancement. The Program is the desired result of the Activity.

<sup>12</sup> Program refers to a set of private sector food security enhancement actions which the African led business community decides it wants to implement.

### Basic Approach

The basic approach of this Activity is therefore to

- 1) Develop, in a highly consultative/interactive manner, a rationale, approach and plan for engaging regional agribusiness private sector participants, and to a lesser extent international agribusinesses, in food security enhancement in the GHA. An important part of this Activity is the determination of Mission and REDSO/E relevant and related interests and objectives and how these can be incorporated into the Activity and subsequent Program - to the extent possible within the established level of effort
- 2) Organize and facilitate the work of African, multinational and American entities interested in Program objectives so that a consensus and responsibility allocation can be reached regarding the detailed objectives and implementation methodology of this Activity and the subsequent Program. Examples of these entities include (a) African - local Chambers of Commerce, American Business Associations, and government agencies, regional entities such as IGAD, the East and Southern Africa Business Organization (ESABO), and NGOs, (b) multinational - the World Bank/IFC, UNDP/UNIDO and PVOs, and (c) American - USAID Missions, REDSO/E [including FEWS and the Regional Trade Study], USAID/W, Foreign Commercial Service (FCS), and Foreign Agricultural Service (FAS). An important part of this task will be to understand the above entities current interests and efforts as related to food security enhancement, especially the role of the private sector therein, and how those can be harmonized with this Activity and the subsequent Program
- 3) Assure that this Activity and the subsequent Program are African led and that initiatives for further research coordination or action plans have the full support of and will be primarily implemented by GHA based individuals and organizations
- 4) Help USAID Missions, REDSO/E and FCS Nairobi and other participating entities further involve and elicit from the African private sector what they view as (a) their areas of responsibility for enhancing long term food security and (b) the constraints (e.g., policy, technology, infrastructure, institutions) that need to be alleviated for them to play an active and effective role in doing so
- 5) The expected results of the Program for which this Activity is the first step are the
  - (a) identification and prioritization of the constraints to private sector participation in enhancing food security in the selected countries
  - (b) development and recommendation of strategies for African private sector led alleviation of these constraints,
  - (c) identification of private sector companies - indigenous and to a lesser extent expatriate - willing to expand their presence and investment in the selected countries, and determination of their interest in participating in the implementation of the strategies developed in (b) above, and
  - (d) determination of the extent to which the strategies developed can be regionalized, i.e. applied to other GHA countries

Therefore, this Activity will facilitate the involvement of the African private sector, African institutions associations and governments, USAID Missions, REDSO/E and FAS in the initiation of an Africa led Program for accomplishing these objectives

The extent to which the Program will be developed and the early stages of implementation begun as a part of this activity is dependent on the level of effort required for Program organization, initiation and facilitation

#### Implementation Steps/Tasks

In close collaboration with other participants, the contractor will

- 1) Review, and discuss with Washington based GHAI and Food Security as well as Mission and REDSO/E staff (a) research work they have done on food security in the target countries and in the GHA generally, (b) the potential role of the private sector therein and (c) previous communications and discussions with African institutions and governments on GHAI food security and the role of the private sector Determine Mission and REDSO/E interests in and plans for food security enhancement and the extent to which their interests and plans can be oriented and harmonized into this Activity and the Program being developed After these discussions finalize a work plan and staffing pattern for the study
- 2) Review and extract lessons learned from Mission, REDSO, USAID/W, FCS, FAS, other donor, and local government documents not previously evaluated regarding food insecurity, including the reasons for and plans to alleviate same The major focus of this phase will be on the three target countries, i e , Tanzania, Kenya and Uganda, but the secondary research will include a review of highly relevant documents regarding other GHA countries food security Programs and food security success stories elsewhere in the developing world

Using primarily secondary sources, develop a rationale for the involvement of the private sector in food security enhancement as well as some understanding of the optimal roles of the private and public sectors in food security enhancement Prepare a report on the food security situation in each selected country, a “cross cutting findings and issues” report and the rationale report Circulate the secondary research reports for comment and enhancement

- 3) Identify the most qualified available local consultants - with the assistance and counsel of the entities mentioned in 2) above
- 4) Prepare a set of field work objectives and interview guides for review by the entities mentioned in 2) above, as well as the selected local consultants Once the objectives and guides have been agreed upon, the best sources of information will be identified and the local consultants will begin making appointments Field interviews will be carried out by a team of international and local consultants
- 5) Announce and explain the Activity and Program at the ESABO Conference scheduled for 13, 14 May in Nairobi
- 6) With the assistance of GHAI, REDSO/E and Mission staff, identify individuals from the private sector, local institutions and local governments in each of the selected countries as well as regional entities such as IGAD, that have an interest in providing input into Program development, design and implementation Contacts from the ESABO Conference will also be utilized

An important part of this task will be to determine each non-USAID entities’ interest in and plans for food security enhancement and how their interests and plans can be harmonized with this Activity and the Program being developed

Form these individuals, including interested USAID and FCS managers, into a Private Sector/Food Security Advisory Group to help develop and implement the Program One group will likely be formed in each country as well as one for the region An existing local entity will be substituted for the Advisory group if one is identified that is both interested and believed to be fully capable of supporting Program implementation



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- 7) Hold interviews/discussions in each of the selected countries with knowledgeable persons in the private sector, donor, foreign government, local government and NGO/PVO communities about (a) causes of food insecurity, (b) what has been done/learned, (c) ongoing or planned programs/solutions, (d) how the private sector can support existing or planned programs and (e) the constraints to increased private sector participation in food security enhancement. Local associations such as the American Business Association of Kenya, the Agribusiness Association of Kenya and regional entities such as the ESABO and will also be interviewed. More importantly, determine each entities views on and interest in participation in an African led Program for involving the private sector in food security enhancement as well as how this can be best initiated and implemented.
- 8) Prepare an interim report on Activity progress, prospects and challenges as well as the plan for establishing and sustaining the anticipated African led Program.
- 9) Conduct additional field work in the selected countries to (a) further develop the Program plan, (b) begin the formulation of specific components of the Program to involve private sector companies in food security enhancement and (c) identify and consult with specific indigenous and expatriate private sector organizations and firms to confirm their participation in the Program.
- 10) Based on the above highly consultative and African led activities, propose the optimal Program for accomplishing the established objectives, especially how the Program can become sustainable with little or no additional USAID GHAI support. This may involve soliciting the support of entities such as the World Bank and determining how the proposed Program can be tied into already established and funded REDSO/E and USAID Mission Programs. Review the suggested Program with the Advisory Group and other high-potential-for-participation entities and get their suggestions for enhancement and commitment to support the final version.
- 11) Assess the extent to which the Program can be regionalized and how Mission, REDSO, FCS and other participating donors and agencies can target their new programs to help resolve the constraints that must be alleviated for the African private sector to be more effective in developing market driven solutions to long term food security.
- 12) Hold a conference within the GHA to report the findings of the Activity and progress of the Program as well as how donors, agencies, local governments and others can support the Program.
- 13) Write a final report for dissemination to the Advisory Group, REDSO/E, USAID GHA Missions, USAID/W and other interested parties discussing the Program that has been developed and suggesting how it can be best implemented by Africans, including how the challenges to its success can be overcome.

#### Deliverables

- 1) Weekly oral reports/updates from the project manager to a designated GHAI executive.
- 2) Five copies<sup>13</sup> of a Work Plan based on discussions/communications with USAID Washington, Mission, and REDSO/E staff and the preliminary results of the secondary literature search. The Work Plan can be finalized when a) the extent to which existing or "under development" Programs and plans can be used as the basis for linking the private sector to food security enhancement is understood and b) agreement is reached on the extent to which Mission and REDSO/E interests and objectives will be included in the Activity.

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<sup>13</sup> Copies to GHAI/W, REDSO/E Tanzania, Uganda and Kenya Missions

- 3) Five copies of the rationale, a synopsis of the secondary literature search results for each selected country, and the preliminary cross cutting issues
- 4) Five copies of a draft interim report on the progress toward developing a Program for increasing private sector involvement in enhancing food security This report will also include any suggestions for modifications in the Activity and/or Program design that are believed necessary to improve results
- 5) A conference to be held within the GHA to report the findings of the Activity and progress of the Program as well as how donors, agencies, local governments and others can support the Program This conference will also launch the Program and fully transfer it to the African private sector
- 6) Fifteen copies of a final report responsive to Activity and Program objectives

#### Timing

It is anticipated that this Activity will take approximately 24 weeks from agreement on the SoW, including incorporation of Mission and REDSO/E interests and objectives, until draft final report delivery The initial TDY will begin on 6 May with two weeks in Kenya (6 May - 18 May) and one week in Uganda (20 - 25 May) The second TDY will take place the last three weeks of June and will involve two weeks in Tanzania (10 - 22 June), one week in Uganda (24 - 29 June) and will end with a de-briefing in Nairobi on July 1 and 2

#### Consultant Specifications

**Private Sector Specialist #1** Significant East Africa experience, direct private sector experience, USAID consulting experience, good facilitation capabilities, successful experience as a field team leader, ability to work with high levels of government and private sector organizations, computer literate, good writing skills

**Private Sector Specialist #2** GHA resident, direct private sector experience, USAID consulting experience, some experience in GHAI food security, good facilitation capabilities, ability to work with high levels of government and private sector organizations, computer literate, good writing skills

**Private Sector Advisor** Extensive private sector and government contacts at senior levels, able to coordinate and effectively work with a wide variety of individuals from many different countries and organizations