INTRAREGIONAL TRADE AND FOOD SECURITY IN EAST AND SOUTHERN AFRICA: CONSTRAINTS AND OPPORTUNITIES

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RTAA SYNTHESIS STUDY

INTRAREGIONAL TRADE AND FOOD SECURITY IN EAST AND SOUTHERN AFRICA: CONSTRAINTS, OPPORTUNITIES AND THE WAY FORWARD

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ACRONYMS AND ABBREVIATIONS

ACIS	Advanced Cargo Information System
BASIS	Broadening Access and Strengthening Input Market Systems
BBC	British Broadcast Corporation
BLNS	Botswana, Lesotho, Namibia and Swaziland
CA	Comparative Advantage
CBI	Cross-Border Initiative
CET	Common External Tariff
CIDA	Canadian International Development Agency
COMESA	Common Market for Eastern and Southern Africa
COT	Costs of Transport
CSP	Collaborative Support Program
DRC	Domestic Resource Cost OR Democratic Republic of the Congo
EAC	East African Community
EAEN	East African Enterprise Network
EATI	East African Transport Initiative
ECOWAS	Economic Community of West African States
EPC	Effective Protection Coefficient
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FTA	Free Trade Area
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GFP	Global Facilitation Partnership for Transportation and Trade
GoU	Government of Uganda
GTZ	Gesellschaft für Technische Zusammenarbeit
ICBT	Informal Cross-border Trade
IFC	International Finance Corporation
IFPRI	International Food Policy Research Institute
IGAD	Intergovernmental Authority on Development
IGADD	Intergovernmental Authority on Drought and Development
ILRI	International Livestock Research Institute
IMF	International Monetary Fund
IOC	Indian Ocean Commission
KPA	Kenya Port Authority
MT	Metric Ton
NGO	Nongovernmental Organization
NPC	Nominal Protection Coefficient
NPP	Net Private Profitability
NSP	Net Social Profitability
NTB	Non-Tariff Barriers
NTCTI	Northern Tier Countries Transport Initiative
OECD	Organization for Economic Cooperation and Development
OSSREA	Organization for Social Science Research in East and Southern Africa
PAM	Policy Analysis Matrix

PRIDE	Integrated Regional Program for Trade Development
PTA	Preferential Trading Agreement
REDSO	Regional Economic Development Support Office
RFI	Radio France Internationale
RIIS	Regional Integrated Information System
RMI	Road Maintenance Initiative
RSDP	Road Sector Development Program
RTAA	Regional Trade Analytical Agenda
SACU	Southern African Customs Union
SADC	Southern African Development Community
SADCC	Southern African Development Coordination Conference
SAEN	Southern African Enterprise Network
SAP	Structural Adjustment Programs
SSATP	Sub-Saharan Africa Transport Policy Program
TTCA	Transit Transport Coordination Authority
UNCTAD	United Nations Commission on Trade and Development
UNDP	United Nations Development Program
UNECA	United Nations Economic Commission for Africa
USAID	United States Agency for International Development
VAT	Value-Added Tax
WAEN	West African Enterprise Network
WTO	World Trade Organization

CHAPTER 1.
INTRODUCTION

Regional economic integration has been on the agenda of East and Southern African policymakers since the early 1960s. It has been perceived as an engine of economic growth on the grounds that it expands the narrow domestic markets of African countries. It has also been viewed as a powerful tool to strengthen the bargaining position of African countries in the wake of the increasing globalization of the world economy[1]. This line of thought was dismissed by leading neoclassical scholars who have argued that, because of its trade diversion nature, regional economic integration is welfare-decreasing[2].

Despite the fact that African policymakers have focused increased attention on intraregional trade to spur economic growth, the level of official trade in both East and Southern Africa has been low. One argument put forward to explain this low level of trade is the similarity in the pattern of agricultural production, due to unexploited production potential[3]. As a result of this production pattern, intraregional trade has not contributed to reducing food insecurity as much as it could have, prompting Buckland (1993) and Nuppenau (1993) to suggest that food security could be enhanced markedly in East and Southern Africa if countries in these two regions could take advantage of differences in their resource endowment and if they could address several issues.

A web of factors interplay to impede both intraregional trade and food security in East and Southern Africa. Because of the intricacies and complexity of these factors, the United States Agency for International Development (USAID), through its Regional Economic Development Support Office (REDSO) in East and Southern Africa, launched the Regional Trade Analytical Agenda (RTAA) Project to develop a thorough understanding of the constraints to intraregional trade. The RTAA Project aims also to inform East and Southern African policymakers on the impact of trade and agricultural policies on agricultural productivity so that appropriate policy measures can be taken to foster agricultural supply response and food security.

Following the consultative process with both the private and public sectors to increase intraregional trade, improve food security and foster economic growth, the RTAA Project designed three broad activities comprising: (i) Informal Cross-border Trade (ICBT); (ii) Costs of Transport (COT); and (iii) Comparative Advantage (CA).

The RTAA activities have yielded over the years, interesting stand-alone findings, that if well integrated and exploited, could lead to valuable outcomes for food security in East and Southern Africa. The purpose of the present paper is to take stock of the existing findings under the above-mentioned activities to draw some useful lessons. It intends to reflect on how the different pieces of the puzzle fit together in order to identify the missing links. The importance of such an exercise cannot be overstated on the grounds that the lessons learned

1 Ethier, 1998.
2 Bhagwati and Panagariya, 1996; Panagariya, 1998; Bhagwati and Krueger, 1995; and Srinivasan, 1998.
3 Koester, 1993.

from these activities can help to guide USAID in designing future activities aimed at improving food security through increased intraregional trade.

As it stands, the present study is not an evaluation of RTAA in the sense that it will measure the project performance against its stated goals and assess whether the project has achieved its objectives. Rather, it will use the results of the RTAA studies, build on them and take a holistic approach to intraregional trade. It will attempt to identify the critical hindrance to improve food security through enhanced intraregional trade in East and Southern Africa and propose measures to mitigate the adverse effects of the constraints. Care will be taken to focus on traded agricultural-based commodities (crops and livestock) that account for the bulk of the Gross Domestic Product (GDP) of the East and Southern Africa regions. The study will also propose a set of prioritized activities to REDSO to help USAID maximize its result package aimed at improving food security in the two regions.

In view of the time constraint, the present study will not carry out further analyses to achieve its objectives. It will rather rely on the various research papers published by the RTAA Project since its inception in 1994. In addition, the study will draw on the wide body of literature published under the aegis of USAID and undertaken outside the RTAA activities to understand the policy and non-policy factors hampering intraregional trade and food security. It will also use the results of research undertaken by regional, bilateral and multilateral organizations such as the Common Market for Eastern and Southern Africa (COMESA), Intergovernmental Authority on Development (IGAD), Southern African Development Community (SADC), Canadian International Development Agency (CIDA), GTZ, International Monetary Fund (IMF), World Bank, Food and Agriculture Organization of the United Nations (FAO), United Nations Development Program (UNDP), International Food Policy Research Institute (IFPRI), International Livestock Research Institute (ILRI), etc. Moreover, research carried out by academic institutions such as Michigan State University, Purdue University, etc. will be tapped into to develop a thorough understanding of the issues.

This paper is organized in eight chapters. The second chapter aims to review intraregional trade trends and the institutional setting, focusing on the objectives and strategies of the regional organizations in both East and Southern Africa. The third chapter intends to document the policy reform experience and its implications for food security in East and Southern Africa. The fourth chapter will review the CA issues and results under the RTAA project. The fifth chapter will discuss the directions and magnitude of intraregional trade and assess whether these directions are in accordance with CA. Chapter 6 focuses on identifying the constraints to enhancing intraregional trade and improving food security in both regions. The seventh chapter will propose measures to overcome the constraints identified in the previous chapter. Finally, Chapter 8 will lay out an agenda for actions to be undertaken by USAID to maximum the outcome of its proposed activities.

CHAPTER 2.
INTRAREGIONAL TRADE AND INSTITUTIONAL SETTING

2.1 Official Intraregional Trade Trends in East and Southern Africa

Contrary to the East African region for which the body of literature on intraregional trade has been thin and limited to the RTAA Project, research reports are abundant for the Southern African region. Though trade data for this region are sketchy, they provide few discernable trends. Trade among the Southern African countries amounted to over US $2 billion in 1992[4]. According to the existing data, South Africa was the dominant trading force in the region, accounting from nearly 50 percent of total intraregional trade. Its share of intraregional trade amounted, however, to only four percent of its total trade, a testimony that this country is more open to the rest of the world than to the other Southern African countries. In terms of intraregional trade share, Zimbabwe was a distant second to South Africa, with approximately 25 percent of the regional trade. This share appears to be attributed to the increased exports from Zimbabwe to South Africa, following the trade agreements between the two countries. In fact, Zimbabwe was granted preferential access to the South African market and in turn, reduced its customs duties on products imported from South Africa. South Africa also signed bilateral trade agreements with Malawi that helped to boost that country's regional exports from fiver percent to nearly 30 percent over the 1990-1992 period.

An analysis of the Southern African trade data suggests the bulk of regional trade originates from and destined to South Africa. Its exports to the regional market consist mainly of manufactured goods such as processed agricultural commodities (flour, beverage and tobacco), intermediate goods, machinery and transport equipment. These regional exports contrast sharply with South African exports to the developed world, focusing primarily on agricultural commodities. As for other Southern African countries, they trade mainly primary commodities and the patterns of their trade seem similar. For example, all these countries are net importers of wheat and rice and almost all the Southern African countries excluding South Africa, Zimbabwe and to a lesser extent Tanzania, are net importers of maize because of the strong demand for this staple food product.

Intraregional trade of maize was, until recently, discouraged by the majority of the Southern African countries, owing to fear of potential market disruptions. Maize, consumed by the powerful urban consumers and perceived as the strategic product, has provided great justification to governments to intervene in the food market. Most governments imposed quantitative restrictions on maize trade to satisfy the domestic market. Government interventions have been more pervasive during the drought years that caused supply shocks. As a result, maize has not been traded officially between Southern African countries.

According to the existing trade data, official intraregional trade volumes appear to have stagnated in the Southern African region in recent years[5]. This calls for raising the issue of why the sluggish intraregional trade performance, despite the steps taken by most Southern African countries since the mid-1980s to reform and open their economies. A thorough

[4] Mukherjee and Robinson, 1997.
[5] Tekere, 1997; African Development Bank, 1993.

analysis of the data seem to suggest that export volumes have declined over the years for some countries such as Mozambique, Tanzania and Zambia. Further analysis of the data shows that the range of products traded in the region has narrowed in recent years, suggesting a shift in CA.

2.2 Institutional Setting and Role of Regional Organizations and Initiatives in East and Southern Africa

2.2.1 Trade Organizations and Initiatives

A variety of regional organizations and initiatives designed to promote trade in East and Southern Africa exist. The most important of these organizations and initiatives are COMESA, SADC, the Southern African Customs Union (SACU), the Cross-Border Initiative (CBI), the East African Community (EAC), the Indian Ocean Commission (IOC) and IGAD, the East African Enterprise Network (EAEN), and the Southern African Enterprise Network (SAEN).

A. COMESA

COMESA was established in November 1993, superseding the Preferential Trading Agreement (PTA) for East and Southern African states. The member states of COMESA, as well as those of the other regional organizations that will be discussed in subsequent sections, are displayed in Table 2.1. The objectives of the COMESA Treaty and Protocols are to facilitate the removal of structural and institutional weaknesses of its members through the creation and maintenance of:

- a full free trade area (FTA) guaranteeing the free movement of goods and services produced within the COMESA region, and the removal of all Non-Tariff Barriers (NTBs);
- a customs union under which goods and services imported from the non-COMESA countries will attract a single tariff;
- the free movement of capital and investment supported by the adoption of common investment practices;
- a gradual establishment of a payment union based on the COMESA Clearing House and the eventual establishment of a common monetary union; and
- the adoption of common visa arrangements leading eventually to the free movement of people.

Table 2.1. Members of East and Southern African Organizations

Country	COMESA 1/	SADC 2/	SACU 3/	CBI 4/	EAC 5/	IOC 6/	IGAD 7/
Angola	M	M					
Botswana		M	M				
Burundi	M			M			
Comoros	M			M		M	
Djibouti	M						M
DRC 8/	M						
Egypt	M						
Eritrea	M						M
Ethiopia	M						M
Kenya	M			M	M		M
Lesotho		M	M				
Madagascar	M			M		M	
Malawi	M	M		M			
Mauritius	M	M		M		M	
Mozambique							
Namibia	M	M	M	M			
Reunion						M	
Rwanda	M			M			
Seychelles	M	M		M		M	
Somalia							M
South Africa		M	M				
Sudan							M
Swaziland	M	M	M	M			
Tanzania 9/		M		M	M		
Uganda	M			M	M		M
Zambia	M	M		M			
Zimbabwe	M	M		M			

Note:
1. COMESA = Common Market for Eastern and Southern Africa
2. SADC = Southern African Development Community
3. SACU = Southern African Customs Union
4. CBI = Cross-Border Initiative
5. EAC = Commission for East African Community
6. IOC = Indian Ocean Commission
7. IGAD = Intergovernmental Authority on Development
8. DRC = Democratic Republic of Congo
9. Tanzania withdrew from COMESA in October 2000
M = member

The fulfillment of the complete COMESA mandate is regarded as a long-term objective. To become more effective as an institution, COMESA has defined its priorities over the next three to five years as being "The Promotion of Regional Integration Through Trade and Investment." Under the COMESA program, the following activities will be undertaken: trade liberalization, trade facilitation, payment systems, institutional support, competition policy, investment road maps, strengthening the private sector, and immigration and free movement of persons.

One of the major activities set as a target by COMESA is the establishment of the FTA. As of October 2000, nine countries have joined the FTA[6]. Member countries have agreed to adopt a formula on the rules of origin for preferential trade requiring the local content to be at least 35 percent of the ex-factory cost of the goods. COMESA member countries have also agreed to establish a customs union with a common external tariff by 2004[7]. In the area of trade facilitation, the COMESA secretariat is implementing a program to improve the transport and communication systems in the region. These include the adoption of harmonized road transit charges, a Yellow Card Scheme for vehicle insurance, Customs Bond Scheme, and an Advance Cargo Information System (ACIS). To provide the required financial infrastructure and service support, COMESA has created specialized institutions in the form of a trade and development bank, reinsurance company, and the COMESA Clearing House. With regard to immigration matters and free movement of persons, four countries are already in full compliance, while others have committed themselves to fully implement the protocol.

B. SADC

Established in August 1992, SADC superseded the Southern African Development Coordination Conference (SADCC), an informal organization set up by the "frontline" countries to reduce the economic dependence on South Africa. The SADC Trade and Development Protocol, signed in August 1996, aims to establish a FTA eight years after the ratification and the gradual elimination of tariffs and NTBs in the interim. The protocol was ratified by five member states out of the eleven original country signatories. Others are in agreement on a tariff liberalization program negotiated by the eleven original signatories of the Trade Protocol. Current proposals call for the removal of all intraregional tariffs within eight years, but do not specify the liberalization of trade with non-SADC countries. It is worth noting that proposals regarding trade liberalization among SADC countries allow special treatment of the so-called sensitive products of agriculture, agro-industry and manufacturing with a slower and gradual import tariff reductions. The "sensitive" goods consisting of dairy products, wheat, sugar, cotton, fabrics, leather footwear and vehicles will be subject to a slower liberalization process. Moreover, some of the proposals leave open the possibility of excluding some goods or sectors from the trade liberalization scheme.

Under the Trade Negotiation Forum Framework discussed each month, an agreement on a full schedule of tariff reductions was supposed to be reached in August 1999. In conformity with the principles on which integration in SADC is built, the region adopted a decentralized approach in implementing regional policies, projects and programs. Protocols have been developed for several sectors and each member country is in charge of coordinating at least one sector. In this respect, Zimbabwe is responsible for coordinating food security issues.

[6] The nine countries which officially committed themselves to the zero-tariff FTA are Djibouti, Egypt, Kenya, Malawi, Madagascar, Mauritius, Sudan, Zambia and Zimbabwe. Rwanda, Uganda and Seychelles are expected to join the FTA in 2001 and they will be followed shortly by Burundi, Eritrea and Ethiopia. But, Tanzania has withdrawn from COMESA for unknown reasons.

[7] The tariff rates agreed to are 0%, 5%, 15% and 30%.

The implementation of each regional program requires a capacity-building exercise to ensure that the technical expertise needed is available both at the national and regional levels.

C. SACU

The SACU was established in 1910 and represents one the oldest regional organizations in Africa. Originally, it comprised Botswana, Lesotho, South Africa and Swaziland and expanded in 1990 to include Namibia. SACU's objectives are to encourage economic development and diversification, particularly in the less advanced member countries. It aims to yield to all member countries equitable benefits from intraregional and international trade.

Under the SACU agreement, member countries apply the customs duties and other taxes set by South Africa to goods imported to the Union from non-Union countries. However, a SACU member may enter separately into, or amend, trade agreements with a country outside the common customs area, provided that the terms of such agreements or amendments do not conflict with the provisions of the SACU agreements. Members may not impose duties or quantitative restrictions on goods grown, produced or manufactured in the SACU countries. Nor can they impose duties on imported goods from any other member even if they originate from outside the Union. Each member has its own legislation on quantitative restrictions on goods imported from outside the SACU area. Other than South Africa, member countries, following consultations with others, may apply additional duties or increase duties to protect infant industries. Rebates, refunds, and drawbacks granted by member countries must be identical, except in specific circumstances. Exceptional trade restrictions by a member State may also be justified. There are marketing arrangements under which agricultural imports from other SACU members may be restricted.

The agreement among SACU member countries is that all duties and taxes collected by the Union members are pooled and distributed to members. The shares for Botswana, Lesotho, Namibia and Swaziland (BLNS) are determined on the basis of a revenue-sharing formula and the residual is allocated to South Africa.

D. CBI

CBI is a common policy framework developed by a set of fourteen East and Southern African countries with the support of four major donors including the African Development Bank, the European Union (EU), the IMF, and the World Bank. It aims to facilitate cross-border trade and activities by eliminating barriers to the flow of goods, services, labor, and capital. In addition, it seeks to help integrate markets by coordinating reform programs in several key structural areas supported by appropriate macroeconomic policies. The initiative places the responsibility for determining how to implement the agreed policies at the national level.

CBI focuses on four key elements consisting of:

- liberalizing foreign exchange systems by eliminating restrictions on current account transactions and certain capital transactions, and establishing unified interbank spot foreign exchange markets;

- dismantling NTBs on imports and exports, eliminating tariffs on intra-CBI members, and lowering tariffs on a preferential basis to agreed or lower levels;
- strengthening domestic financial markets by improving prudential and supervisory capacity of centrals banks; and
- simplifying and liberalizing investment procedures.

In the area of foreign exchange system liberalization, most countries removed restrictions on current account transactions by the end of 1998. In addition, a handful of countries liberalized totally capital account transactions while the remaining countries took partial steps to ease such controls. Moreover, most countries met the CBI objective of introducing a flexible exchange rate system within the context of a unified interbank foreign exchange market.

On trade liberalization and facilitation, significant but uneven progress was achieved. Many of the participating countries made significant progress toward meeting the CBI target on tariffs. Although none of the countries fully eliminated intraregional tariffs, virtually all countries implemented preference margins for other CBI participants, ranging between 60 percent and 80 percent. Moreover, most countries eliminated import quotas and bans, as well as import licensing requirements. In addition, the monopoly power previously exercised by state marketing boards or state-controlled enterprises with regard to exports, imports and price setting was reduced markedly in most countries. Progress was also achieved in some key areas of trade facilitation including implementation of the harmonization of road transit charges, and the introduction of the road customs transit documentation and of a single good customs declaration form.

Good progress was made in reforming the domestic financial markets to improve efficiency. Most countries moved to the use of indirect monetary instruments to control monetary aggregates. Administered interest rates were phased out and replaced with market-based mechanisms. Increased attention was devoted to strengthening the power of central banks in order to enforce prudential regulations and provide autonomy in conducting monetary policy.

Progress was also made in the area of investment deregulation. For instance, the approval procedures, particularly through the establishment of the one-stop investment approval authority, were simplified. Ten countries completed the publication of investment codes. With the exception of a few countries, most of the investment codes included some form of tariff exemptions. In contrast, slow progress was achieved in facilitating labor mobility.

E. EAC

The EAC, comprising Kenya, Tanzania and Uganda, was established in 1993 and aims to:

- strengthen and consolidate cooperation in agreed sectors, with the view to bringing about equitable development among member countries;
- establish a single market and investment area in the region; and
- promote sustainable utilization of the region’s natural resources and effective protection of the environment.

Much of the work undertaken by EAC has focused on formulating programs to ease the movement of people, good, services and capital; providing adequate and reliable basic infrastructure; harmonizing standards, specifications, trade documentation and investment policies; harmonizing macroeconomic and sectoral policies; providing trade financing and other facilities for export growth; and achieving convertibility of the three East African currencies.

As a result of these activities, EAC has achieved: (i) full convertibility of the three East African currencies within the region; (ii) full liberalization of the external current account and progress toward liberalization of the capital account; (iii) consultations to harmonize monetary and fiscal policies; (iv) synchronization of the budget day of the three member countries; (v) development of a macroeconomic framework for the region to guide countries toward economic convergence; (vi) launching of the EAC Development Strategy; (vii) formation of an East African Securities Regulatory Authority to facilitate the establishment of an East African Stock Exchange and cross-listing of stocks; (viii) formation of an East African Business Council including private sector organizations to promote cross-border trade and investments; and (ix) the execution of tripartite agreements to avoid double taxation on road transport and inland waterways.

F. IOC

Established in December 1982 by Madagascar, Mauritius and Seychelles, the IOC aims to promote cooperation in trade, agriculture, fishing and ecosystem conservation, as well as cooperation in cultural, scientific, technical and educational areas. IOC designed the Integrated Regional Program for Trade Development known under its French acronym (PRIDE) to enhance intraregional trade through removing the technical and financial constraints on the private sector of its members. Indirectly, PRIDE aims to enhance business competitiveness and the quality of traded goods, and improve the availability and reliability of trade data. PRIDE has two main elements: (i) a macroeconomic component consisting of a general framework of actions to liberalize trade in goods and services, investments, capital movements, and movements of people; and (ii) a microeconomic aspect designed to facilitate business contacts and partnerships, such as participating in trade exhibitions and organizing trade missions.

G. IGAD

IGAD, which superseded the Intergovernmental Authority on Drought and Development (IGADD), was created in 1986 by Djibouti, Ethiopia, Kenya, Somalia, Sudan and Uganda. In September 1993, Eritrea joined IGAD whose objectives are to:

- promote joint development strategies and gradually harmonize macroeconomic policies and programs in the social, technological and scientific fields;
- harmonize policies pertaining to trade, customs, transport, communications, agriculture, and natural resources;
- promote free movement of goods, services, and people within the subregion;

- Create an enabling environment for foreign, cross-border and domestic trade and investment;
- Initiate and promote projects to achieve food security and sustainable development of natural resources;
- Encourage and assist efforts of member states to collectively combat drought and other natural and manmade disasters and their consequences;
- Develop coordinated and complementary infrastructure in the areas of transport, telecommunications and energy in the subregion;
- Promote peace and stability in the subregion and create mechanisms for the prevention, management and resolution on interstate and intrastate conflicts through dialogue;
- Mobilize resources for the implementation of emergency, short-term, medium-term, and long-term programs within the framework of subregional cooperation; and
- Facilitate, promote and strengthen cooperation in research development and application in science and technology.

IGAD plans to achieve these stated goals through projects in the areas of food security such as the Regional Integrated Information System (RIIS), remote sensing, training in environmental promotion and grain marketing, etc. In addition, project coverage includes infrastructure development in telecommunications (road, rail, water) and industry, and capacity building in conflict prevention and mitigation of humanitarian crises.

F. Business Organizations

Numerous business organizations operate in East and Southern Africa. The two most prominent private organizations are the East African Enterprise Network (EAEN) and the Southern African Enterprise Network (SAEN) created in 1998 and headquartered in Addis-Ababa and Lusaka, respectively. Registered as international nongovernmental organizations (NGOs), these two networks aim to improve the business climate in their member countries and promote cross-border trade and investment. The mode chosen by these organizations to achieve their objectives is to improve the business information flows and increase private sector participation in regional integration dialogue.

To provide credibility to their actions, EAEN and SAEN select their members on the basis of their integrity, achievements, strong interest in regional trade and investment, and willingness to devote time and financial resources to the networks. Although they rely primarily on their members, the EAEN and SAEN work closely with key strategic allies such as national business organizations, COMESA, SADC, United Nations Economic Commission for Africa (UNECA), Organization for Economic Cooperation and Development (OECD), EU, the World Bank, and various bilateral agencies including USAID, AFD, Canadian International Development Agency (CIDA), etc. In addition, the networks have developed strong ties with investor organizations worldwide including the US Corporate Council on Africa, the British-African Business Associations, the Malaysian South-South Corporation, the Singapore Trade Development Board, etc.

The main assessment that can be made of the regional organizations and initiatives is that they are numerous and that COMESA is by far the largest in East and Southern Africa. In some cases, the organizations or initiatives aim to achieve the same goals, using different means. In other cases, the objectives are different and in conflict sometimes. For instance, while some organizations strive to achieve a FTA, others provide the latitude to their members to levy additional duties or taxes on imports from the member states to protect their commodities or goods. It is evident that the conflict will be more apparent when the same countries belong to an organization aiming to achieve a FTA and to another organization providing flexibility to its members to impose duties designed to shield their products or firms from competition.

2.2.2 Transport Organizations/Groupings

Several fora and initiatives often sponsored by donor agencies, infrastructure network providers, private and public operators, and industry associations interplay to promote regional transport. Some of the most important undertakings include the following: fora and initiatives, transport infrastructure network providers, and trade facilitation.

A. Fora and Initiatives

Under the United Nations sponsorship, two initiatives called United Nations Decades for Transport and Communications in Africa were coordinated by UNECA between 1978 and 2000. The goal of these initiatives was to enable an efficient and integrated transport and communication system in order to establish firmly the basis for Africa's physical integration and facilitate domestic and international traffic. The ultimate objective is to promote trade and bring about an endogenous economic development.

In 1987, UNECA, in partnership with the World Bank, also launched in the Sub-Saharan Africa Transport Policy Program (SSATP) to:

- improve efficiency in the sub-Saharan African transport sector,
- encourage reform of transport policy, and
- bring about institutional change[8].

The United Nations Commission on Trade and Development (UNCTAD) has also been active in the East and Southern African transport sector and has launched a variety of initiatives over the past forty years.

In East Africa, the Transport Transit Coordination Authority (TTCA) based in Mombassa is responsible for implementing the Northern Corridor Transit Agreement signed by the Governments of Burundi, Kenya, and Rwanda in 1985. The Democratic Republic of Congo (DRC), known as Zaire prior to 1997, acceded in 1987 to the agreement designed to:

- take actions in order to avoid unnecessary delays in transit traffic,
- simplify and harmonize documents and procedures relevant to transit traffic, and

[8] See SSATP Activity Report published in 1998.

- minimize the incidence of customs fraud and avoidance.

Recently, TTCA established a stakeholders group that has met regularly and has included shippers, private and public transport operators, forwarding agents, customs agencies and other interested parties.

The Central Corridor is a similar grouping of states, which, under bilateral agreements between Tanzania on one hand and Burundi, the DRC, Rwanda and Uganda on the other hand, aims to facilitate the international trade of the latter countries that passes through the port of Dar es Salaam. The Central Corridor also has at its disposal a stakeholder forum that meets regularly to monitor conditions along the corridor.

Similarly, bilateral agreements govern transit trade between Ethiopia on one hand and Eritrea and Djibouti on the other hand. Because there is no central government in Somalia, informal agreements have been signed between the Port of Berbera in Somaliland and Ethiopia.

COMESA and IGAD have also undertaken several initiatives. Those of IGAD include:

- subregional road network development,
- strengthening the railways network, and
- maritime infrastructure projects.

More recently, the East African Transport Initiative (EATI), established under the RTAA project, has carried out analytical studies and published bulletins and newsletters. It also convened workshops and symposia to inform policymakers and transport stakeholders on its activities. A similar initiative known as the Northern Tier Countries Transport Initiative (NTCTI) targets the countries of the Horn of Africa.

B. Transport Infrastructure Network Providers

In the area of road maintenance, the UNECA and the World Bank have encouraged East and Southern African states to participate in the Road Maintenance Initiative (RMI) under the SSATP. Thanks to the RMI, various member states have taken the initiative to create their own agency. For instance, Uganda set up the Road Agency Formation Unit in 1998 to guide the Road Sector Development Program (RSDP) in rehabilitating its road network and reestablishing road maintenance on a sustainable basis. A Ugandan road agency study is currently underway to determine the final institutional arrangements for the sector. Various configurations of institutional arrangement ranging from a continuation of the status quo to a fully autonomous and self-financing authority are under examination.

As for railways, ownership is still under government grips. However, following successful experiments in concessionization — the granting of the right to operate the railway for 20 years to a private actor — in West Africa in the 1980s and early 1990s, regional railways in East and Southern Africa are planning their concessionization schemes.

C. *Trade Facilitation*

In the area of trade facilitation, various initiatives have been undertaken. One such initiative is COMESA's pioneering work in its region of influence. COMESA's initiative includes:

- the introduction of the COMESA carriers license in 1991 to enable the carrier of one member state to operate in the territory of another member state without registration in the non-home state;
- the promotion of standardized transit fees between member states; COMESA transit fees are being adopted by Burundi, Ethiopia, Kenya, Rwanda, and Uganda;
- the promotion of the Road Customs Transit Declaration which has been adopted along the Northern Corridor; and
- the promotion of standardized axle load limits.

Under the CBI, the following initiatives were achieved:

- Road Customs Transit Document,
- Harmonized Transit Charges,
- Single Goods Declaration Documents, and
- Bond Declaration Scheme.

At the global level, UNCTAD launched ACIS, designed to allow shippers and carriers to track individual consignments through multimodal transport chains. It includes Port Tracker, Rail Tracker, Road Tracker, and Lake Tracker. To date, ACIS is being implemented throughout COMESA.

Within the SSATP, a Transport and Trade Facilitation Initiative has been established thanks to the help of UNCTAD and aims to:

- increase the quality of international transport and reduce the associated costs; and
- reduce any transaction costs, adopt commercial practices to international standards and remove any unnecessary trade barriers within the economic, social and political context of member countries.

Recently, the World Bank sponsored a related initiative called the Global Facilitation Partnership for Transportation and Trade (GFP) to broaden membership of the Transport and Trade Facilitation membership to other parts of the world and explicitly include the private sector. The objective of GFP is also to bring together all interested parties in order to achieve significant improvements in transport and trade facilitation. The partners will design and implement specific projects which make use of their CA in this area in a coordinated fashion.

CHAPTER 3.
POLICY REFORM EXPERIENCE IN EAST AND SOUTHERN AFRICA

In the late 1970s and the early 1980s, the countries of East and Southern Africa, as most of sub-Saharan Africa, experienced a deep economic crisis that was characterized by slow or negative economic growth, chronic external imbalances, high inflation and declining exports. This poor performance, coupled with declining agricultural productivity, prompted the East and Southern African states to launch the Structural Adjustment Programs (SAP) in the 1980s in order to reverse the economic decline and eventually achieve positive growth.

This section will review how the SAPs were generally implemented and how they were applied in both the agricultural and transport sectors. The objective of the section is to draw lessons on what has been accomplished and provide a vision on the implications of the SAPs for intraregional and food security in East and Southern Africa.

3.1 General Reform Programs Since the Early 1980s

The precarious economic situation of the East and Southern African countries in the 1980s provided them the platform to negotiate the SAPs with the international donor community led by the World Bank, the IMF and bilateral donor agencies including USAID. Designed to restore internal and external equilibria, the SAPs aimed to: (i) reduce fiscal deficits through reduction of the public sector size, and improvement in both its management and the efficiency of state-owned enterprises; (ii) reduce and eliminate internal price distortions by liberalizing domestic marketing to bring about efficient allocation of scarce resources; (iii) establish a market-determined exchange rate in order to boost exports and contain imports, thereby improving the external trade balance; (iv) liberalize regional and international trade through the abolishment of licenses and quantitative restrictions; (v) improve financial sector policy in order to increase the return on capital and foster domestic savings; and (vi) improve the efficiency of the labor market through increased labor mobility and more flexible wages.

The main instruments used to achieve the above-mentioned goals revolve around fiscal and monetary policies, trade policies and pricing policies. Fiscal and monetary policies targeted the increase in government revenues and the reduction in government expenditures. Increasing government revenues meant setting targeted tax revenues, introducing tax reforms by shifting from specific to ad valorem taxes, providing tax incentives to businesses, and improving collection and compliance. Meanwhile, public expenditures were designed to be cut through setting specific expenditure targets, rationalizing public investments, monitoring and controlling public expenditures, increasing the efficiency of public sector enterprises through restructuring and rationalization, and eliminating subsidies and transfers to public enterprises.

Trade policies concentrated on devaluation of the domestic currency to boost the supply of tradable goods, elimination or reduction of export taxes for improved export competitiveness and enhanced supply response, reduction in import duties on inputs used in the production of exportable commodities, and establishment of export promotion agencies and free trade zones.

In addition, they focused on eliminating quotas and removing licensing restrictions, changing import procedures and regulations, and rationalizing tariffs and other protection measures.

The policies pertaining to pricing typically sought to reduce price distortions by increasing both output prices through better transmission of world prices to farmers and input prices through the removal of subsidies to farmers with the expectation that the increase in output prices will outweigh that of input prices. These policies also focused on decontrolling consumer prices, under the assumption that these prices would increase in the short run and decline in the long run through improved efficiency in the marketing channel.

An assessment of the impact of policy reforms was undertaken by several analysts including Ndimande (1992), Kaluwa (1992), Amani and Maro (1992), Jayne and Chisvo (1992), Takavarasha (1992), Kandole (1992) and Muir-Leresche (1994). The useful lessons that can be drawn from the conclusions of these analysts are that economic performance has been uneven among reforming countries and has been influenced by not only the quality of reform implementation but also other factors. Key among these factors are the synchronization of the policy reforms, sustainability in the implementation of the reforms, and the timeliness of the reforms. Experience has shown that economic performance has been mixed in countries where there has been lack of synchronization, policy reversal and delay in implementation. In addition to these factors, economic performance has been influenced by how countries have coped with drought, the state of infrastructure, and the functioning of input and output markets. Clearly, policy reforms are necessary but not sufficient to bring about sustainable economic growth. They need to be complemented by other critical elements such as investment in both physical and human capital to put and sustain the economy on a growth path.

3.2 Agricultural Reforms and Food Security in East and Southern Africa

The reform programs introduced in the agricultural sector aimed to improve efficiency in resource allocation and bring about greater supply response in both the food and export subsectors. The agricultural reform measures were articulated around the following:

- freeing input and output prices by removing government from price fixing to bring domestic prices in line with world prices;
- eliminating government-induced distortions such as heavy taxation of output and input subsidies;
- lifting restrictions on the movements of inputs and outputs in domestic markets;
- withdrawing the public sector from productive activities to increase private sector participation in production and marketing activities to induce greater competition in input and output markets; and
- redefining government role as provider of public goods and holder of food security stocks.

The basic premise underlying the agricultural reforms was that market liberalization and increased competition would create the enabling environment for increasing agricultural supply response. It was anticipated that these reforms would integrate markets better and send the right signals to both producers and traders for better resource allocation. It was also expected that increased competition in both input and output markets would lead to a reduction in marketing margins so that food prices would decline for urban consumers, thereby raising their real income and improving food security.

Since the launching of the agricultural reforms programs in the 1980s, the evidence today suggests that some progress has been achieved in certain areas but that the impact of these reforms is questionable in other areas. The record appears to show that market reforms have had beneficial impacts on the food subsector in East and Southern Africa because government interventions were more pervasive in this subsector. Food markets appear to be better integrated these days than previously and marketing margins have declined markedly, thanks to increased competition. As a result, most urban consumers and net buyers in rural areas have had access to a wider range of food commodities at affordable prices[9]. At the same time, producers of cash crops have seen their share of the export parity price increase over the years, owing to not only the decline in marketing margins but also the adjustments in the exchange rate through successive devaluations of the local currencies. As a result, the income of cash crop producers has increased and the supply of export crops has expanded[10]. However, the private sector has not rushed in some key subsectors to fill the vacuum left by the withdrawal of the public sector. For instance, the withdrawal of the public sector from input distribution has not been taken over by the private sector and as a result, input supply to farmers has been difficult. Consequently, input use has declined and on-farm productivity has been negatively affected over the years. The declining input use reflects also difficulties to extend credit to farmers resulting from market failure.

The impact of the reform programs on the agricultural sector has varied widely from country to country in East and Southern Africa. In countries such as Mozambique and Tanzania, where government interventions were pervasive prior to the introduction of the reforms, supply response — particularly in the export subsector, has been significantly positive owing to productivity increase. Contrary to these countries, agricultural productivity declined in Malawi following the removal of input subsidization resulting from the introduction of the reform package. The conviction that productivity would not be affected by the increased fertilizer price was based on the assumption that demand for fertilizer was highly inelastic so that any change in fertilizer price would not significantly affect demand[11]. Because of the adverse effect of fertilizer consumption on productivity, the Government of Malawi reversed the reform measures and reinstated the subsidies. It was felt in this country that the input subsidies were needed to soften the impact of the currency devaluation coupled with the disruption of transport resulting from insecurity in Mozambique. After nearly a decade of policy reversal, the time is ripe for Malawian policymakers to assess its impact on production efficiency and its sustainability and anticipate the gradual removal of the subsidy so that input use does not become a drain in government budget.

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[9] Sahn, 1999; Jayne and Jones, 1997; and Coulter and Golob, 1992.
[10] Townsend, 1999.
[11] Mtawali, 1993.

3.3 Transport Policy Reform

The reform programs undertaken in the transport sector have covered the different modes of transportation including road, railways, maritime, and civil aviation.

3.3.1. Road

In the road subsector, the reform components were often linked to the RMI agenda. The general theme of the reform effort was to reestablish road maintenance on a sustainable basis. The physical works components of the program targeted eliminating the road maintenance backlog and rehabilitating roads that could not be maintained because of serious degradation.

In Ethiopia, a road fund administration was established in 1997 under a road sector development program. The primary activities of the road fund administration included:

- administering a road fund,
- reviewing and coordinating road agency program, and
- disbursing funds from government for road works.

The private sector has been represented on the fifteen-member board by three representatives from road transport operators associations.

In Kenya, a roads board was established in 2000 in the wake of a road sector institutional study. The membership of the roads board has been composed of seven government representatives and seven private sector representatives, the chairman being one of the private sector members. The roads board aims to achieve:

- revenue generation and allocation,
- planning and programming, and
- evaluation.

The Board's activities are supported by a road maintenance levy, which is primarily derived from fuel taxes.

In Uganda, a Road Agency Formation Unit was put in place in 1998, with the purpose of procuring resources from the market through competitive bidding under public procurement rules. The general road subsector reform process underway in Uganda focuses on:

- developing a basis for road maintenance;
- streamlining the arrangements for financing road maintenance;
- developing sustainable arrangements for financing road agency recurrent costs;
- strengthening managerial accountability; and
- developing performance monitoring and auditing arrangements, and building the domestic construction industry.

Recently, Tanzania established TANROADS, an autonomous agency overseen by a road board and supported by a road fund. Similar objectives to those applying to the new institutional arrangements in Uganda and Kenya motivated the establishment of TANROADS.

The road agenda has been advanced in the remaining countries of the region in the cases of Sudan and Rwanda by participation in the RMI. However, in Burundi, Somalia and Eritrea, progress has been somewhat slow.

As for transport operations within the road subsector, they are generally operated by the private sector in all countries, with little, if any transport regulation. Ethiopia and Eritrea are the only countries that maintain controls on road freight and passenger rates at present.

3.3.2. Rail

The reform in the rail subsector has been assisted by various multilateral and bilateral agencies. The rail component of the SSATP and the ACIS of UNCTAD has figured prominently in the effort. Currently, the notions of commercialization and concessionization are being promoted. Commercialization involves subcontracting out some functions such as locomotive maintenance, the redevelopment of a better shipper/consumer orientation, and the direct payment by government for services that are considered not remunerative but regarded as socially necessary to the private sector. Concessionization concerns the granting to a private party of the right to operate the railway for 20 years. In return, the concessionaire develops and pays for social plans designed to rationalize the labor force, and undertakes necessary rehabilitation and development work.

Eritrea's railway between Massawa and Asmara has been rehabilitated by the government, with Eritrea State Railways remaining a government parastatal in the classical sense of the term. The *Chemin de Fer Addis-Djibouti* has long been operated along similar lines. However, the EU has proposed a partial rehabilitation of the line, which would be followed by a concessionization of the operations of the railway.

In the EAC countries, evidence of both commercialization and concessionization initiatives exists. The Uganda Railway's Corporation and Kenya Railways have both experimented with commercialization, the latter having signed a contract with General Electric of the USA for the performance-related supply of available locomotives. The possibility of concessionization has also been mooted in both countries.

In Tanzania, it is understood that a transaction advisor for the concessionization of rail operations is currently underway. Little is known of commercialization initiatives on the lines of the Sudan Railways Corporation. The eastern rail network of the DRC is supposed to be abandoned.

3.3.3. Maritime Transport

The impetus for concession operations in ports is as strong as it is in the rail subsector. The container port in the harbor of Dar es Salaam has been concessionized and operations started in late 2000. Concessionization of the other operations of the port of Dar es Salaam has begun with the selection of a transaction advisor in 2000-2001.

Elsewhere in the EAC countries, the Kenya Ports Authority is currently considering the appointment of a transaction advisor for concessionization of some operations. Of greater import perhaps, is the result arising from the efforts of a multiparty task force in 2000 to join all stakeholders, in an effort to reduce the dwell time of cargo in the Port of Mombasa. This effort was coordinated by the private sector Kenya International Forwarding and Warehousing Association, but included the participation of all significant government bodies such as the Kenya Revenue Authority, the Kenya Customs, etc. As a result of the effort, the number of signatures needed for removal from the Port of Mombassa has been reduced from 22 to four, resulting in a dramatic reduction of dwell time. Cargo can now be cleared from the port within two to three days, as opposed to two to three weeks as recently as two years ago. It is proposed to apply the task force approach along the northern Corridor.

The Ethiopian maritime access situation has been altered dramatically since the war with Eritrea ended in late 2000. The recently rehabilitated ports of Assab and Massawa handle only Eritrean cargo. Ethiopian cargo has been diverted to Djibouti and Beberba ports. The *Port Autonome de Djibouti* has long had a commercial approach to operations with the continuing presence of French commercial interests within the Port. Berbera, a very recent development as a commercial transit port, has also a variety of private interests working within the port.

As far as inland waterways are concerned, the majority of operations on Lake Tanganyika are controlled by private operators. On Lake Victoria, the bulk of large-scale commercial operations is run by the parastatal railway companies, with the view that railway reform efforts will eventually have an impact on lake operations.

3.3.4. Civil Aviation

Although civil aviation accounts for a small proportion of trade in goods, it is of course critical in the development of nontraditional export commodities such as cut flowers, fruit and vegetables that are shipped to Europe. It is also important for the facilitation of high-value imports such as spare parts. Of particular interest is the Ugandan and Kenyan trade.

All countries have civil aviation authorities in place. There have been major improvements in freight facilities in Entebbe and Bole airports, as part of general terminal redevelopment schemes. Similar improvements are included in the ongoing redevelopment of Jomo Kenyetta International Airport. Less dramatic changes are evident at other regional airports.

The types of institutional changes noted at the Port of Mombassa are supposed to be replicated at Jomo Kenyetta International Airport with the partners of that exercise already planning a similar intervention.

CHAPTER 4.
COMPARATIVE ADVANTAGE IN EAST AND SOUTHERN AFRICA

Following the policy reform programs initiated under the pressure of the international community, the structure of incentives may have changed in East and Southern African countries to the point where it may have affected the pattern of resource allocation. By extension, the policy reforms may have induced a shift in CA and intraregional trade flows. Owing to the importance of CA in trade, USAID provided resources to undertake research activities aimed at addressing the issue of CA in seven Southern African countries. The primary objectives of this work were to:

- assess the production efficiency of different agricultural commodities in various agroecological zones under different technologies and land tenure systems;
- evaluate the potential impacts of removing existing price and policy distortions on economic efficiency; and
- identify policy, technology and institutional constraints to enhancing efficiency and propose alternative measures to remove these constraints.

4.1 Methodology for Assessing Comparative Advantage

4.1.1 Conceptual Framework

Since Ricardo first launched the notion of CA, several methods have been developed to evaluate economic efficiency and the welfare impact of trade. The issue is which among them best fits the research questions at hand. Given the objectives stated above, a unified approach was developed and focused on the Policy Analysis Matrix (PAM)/ Domestic Resource Cost (DRC) framework, adapted from Monkey and Pearson (1989). This method, which relies on using both observed market prices and correcting for distortions resulting from public policies or market failure, generates several indicators among which the most commonly used for assessing CA are the Net Social Profitability (NSP) and the DRC coefficient. These two indicators suggest that a country enjoys a CA when the NSP is positive or the DRC coefficient is less than unity. In this respect, two conditions must be met for any production option to be the most efficient user of the country's resources:

- The foreign exchange cost of the domestically generated product must be less than its import parity price, which means that it costs less to produce the commodity locally than to import.
- The net foreign exchange gain from producing that commodity must exceed the net economic gain foregone from using the same amount of domestic resources to produce alternative commodities. This is referred to as the opportunity cost of domestic resources.

Using the above-mentioned framework, several other indicators can be generated to identify policy-induced distortions. They are the Nominal Protection Coefficient (NPC), the Effective

Protection Coefficient (EPC), the comparison of the NSP and the Net Private Profitability (NPP)[12].

4.1.2 Determinants of Comparative Advantage

A host of factors have a bearing on the CA of a country in a specific commodity consumed in a specific market. These factors include among other things:

- biological and climatic conditions such as rainfall, temperatures, number and length of sunny days, physical and chemical soil characteristics, topography, etc.;
- cost of productive resources such as land, water, labor and capital. (This cost is influenced by resource endowments (factor supply) and the demand for the factors of production. This cost is also influenced by government policies in the form of taxes, subsidies, import and export restrictions, etc.);
- level of technology that determines the inputs-output relationship and yield levels; and
- access to markets and the performance of the marketing system, which is contingent on both the state of the physical infrastructure and transfer costs between the production zones and the consumption markets.

Given these factors, the issue is how they have affected economic efficiency in the seven countries where CA was assessed.

4.2 Results of the Comparative Advantage Analysis

The RTAA Project evaluated CA in seven countries including Malawi, Mozambique, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe. It is clear from this list of countries that the RTAA Project intended to focus on the Southern African region, even though Tanzania is generally perceived to be part of East Africa for historical reasons. Tanzania is peculiar in many ways because it shares borders with several Southern African states and is a member of SADC, but it enjoys a coastal line that most Southern African countries generally lack.

For each of the seven countries, the following commodities were taken into account:

- <u>Malawi</u>: tobacco, maize, paprika, beans, soybeans and tea;
- <u>Mozambique</u>: maize, cotton, potatoes, sorghum, sunflower, onions, cassava, beans and cowpeas;
- <u>South Africa</u>: maize, wheat, potatoes, sunflower, cotton, beef and sheep;
- <u>Swaziland</u>: maize, cotton and groundnuts;
- <u>Tanzania</u>: coffee, cotton, rice and maize;
- <u>Zambia</u>: maize, wheat, red and white sorghum, millet, rice, sunflower, soya, beans, groundnuts, cotton, barley, tobacco, sugar cane, potatoes and onions; and
- <u>Zimbabwe</u>: maize, wheat, barley, sorghum, soybeans, sunflower, groundnuts, tobacco, cotton, paprika and sugar.

[12] See Monke and Pearson (1989) for a detailed discussion of the measures of policy distortions and CA.

For each above-mentioned commodity, the CA studies carried out by Nakhumwa et al. (1999), Mucavele (1999), Jooste and van Zyl (1999), Magagula and Faki (1999), Department of Agricultural Economics and Planning and Marketing Division (1999), Saasa et al. (1999), and Sukume et al. (1999) relied on the different technologies used to produce the good. The consumption market for each commodity produced was limited to the production zones within the country of interest.

The results of the CA studies suggest that Zambia, Zimbabwe, Malawi and Swaziland enjoy a strong CA in maize, known as the staple food in the Southern African region. In contrast, South Africa, the dominant economy and largest market of the region, suffers from a comparative disadvantage in this commodity. Strangely enough, this country appears to enjoy a CA in only a very few products such as irrigated and rainfed potatoes and cotton, irrigated wheat and tobacco, and both cattle and sheep meat. As in the case of South Africa, Tanzania is an efficient producer of a limited number of commodities including rice, cotton and coffee. Both coffee and cotton are exported generally to the international market where they fetch higher prices.

Zambia, for which a wide range of commodities was analyzed, appears to enjoy also a strong CA in cotton and coffee. In addition, it is an efficient producer of groundnuts, soybeans, sunflower, sorghum, millet, potatoes, and sugar cane. It is also efficient in tobacco, cattle and sheep meat, and milk. This CA in a broad range of commodities makes Zambia a perfect candidate to supply them to the regional market. Like Zambia, Malawi appears to be in the position to export its soybeans and paprika to the Southern African region. Swaziland may also supply groundnuts and cotton to the regional market.

The most important criticism that can be formulated against the approach taken to assess the CA of the Southern African countries lies in the fact that it limited the consumption point to the production zones only. Notwithstanding the importance of these markets, the bulk of consumption takes place outside the production zones, either in the domestic urban centers or in markets located outside the national boundaries. Moving the consumption point from the production zones to the relevant consumption markets outside the production zones requires taking into account transport costs. In these studies, transport cost is not accounted for in determining CA. The fact that CA focuses on the production zones only does not allow researchers to draw any meaningful conclusion of how CA shifts from one market to another. Failure to take into account transport cost seems to take away some of the usefulness of the studies in informing policymakers on the importance of transport policies and infrastructure in finding market outlets for agricultural commodities in the regional context. Yet, trade flows and the directions of these flows are largely influenced by transport costs, which are one of the most important elements that policymakers and trade stakeholders were most interested in to build the foundation of true regional agricultural trade that would contribute to food security. This is partly the reason why transport issues were singled out as a separate activity in the RTAA Project.

Another criticism that can be made to the results of the studies is that they failed generally to shed some light on the policy-induced distortions and propose alternative policies to improve both the incentive framework and CA. The reform programs introduced by the African governments were underpinned by the assumption that the distortions introduced by poorly designed policies adversely affected the incentive structure and hindered supply response and trade. Equally important, the approach taken in the studies neglected to focus on the policy, technical, institutional and infrastructural factors that impede CA and food security. For instance, how important the road infrastructure in reducing farmers' incentives? How does asymmetry in information holding resulting from the lack of market information systems impact resource allocation at the farm level?

CHAPTER 5.
COMPARATIVE ADVANTAGE AND INTRAREGIONAL TRADE IN EAST AND SOUTHERN AFRICA

It is well established among public and private African policymakers, as well as in the research community, that the official trade statistics are unreliable, owing to lack of resources and porous borders. As such, it is difficult to design meaningful policies that can build on the regional complementarities to achieve food security. Taking cognizance of these data flows, USAID funded research activities in East and Southern Africa to feed first-hand information to policymakers so as to formulate appropriate food policies.

The USAID-funded research activities initiated in 1994 were based on survey techniques to generate qualitative and quantitative information. Broadly speaking, three techniques were used: border observation, tracking the movement of large transport vehicles, and stock taking at open markets at the border. The border observation consisted of monitoring the border and applying census techniques designed to cover major agricultural and industrial goods during two weeks randomly selected from each month over a period of twelve months. In this case, the estimated average volumes traded monthly were aggregated to yield the annual volume and value of cross-border trade. This technique was complemented with a data gathering technique consisting of tracking the movement of cargo from the original point to the destination point. It relied on tracking 10 percent of the trucks passing through selected borders. Meanwhile, the stock taking technique consisted of quantifying volumes traded in open markets along the border to estimate the magnitude and volume of trade flows. These three techniques, together with a baseline survey midway through the research activity, helped to generate information on commodity prices, marketing margins, exchange rate, traders' characteristics, nature of markets, and origin and destination of goods.

5.1 Directions and Magnitude of Informal Cross-Border Trade Flows

The survey-based research focused on several borders including those of Kenya and Uganda, Tanzania and its neighbors, Malawi and its neighbors, and Mozambique and its neighbors to provide information on the direction of trade flows. The results of the studies yielded valuable information on the direction and magnitude, as well as the driving forces, of ICBT.

The results revealed that the magnitude of ICBT is much greater than original thought and that the direction of ICBT for the countries listed above depended on the nature of the products. According to Ackello-Ogutu and Echessah (1997), substantial quantities of agricultural commodities and industrial goods were traded informally between Kenya and Uganda. Annual movement of food commodities from Kenya to Uganda could be estimated at over US $37 million, while exports of the same commodities from Uganda to Kenya was about US $57 million during the 1994-1995 agricultural season. For manufactured goods, Kenya's informal exports to Uganda amounted to over US $47 million and those of Uganda to Kenya were only about US $5.5 million for the period under study, suggesting that the direction and magnitude of trade were in accordance with the widely held view that Kenya enjoys a CA in manufactured goods and that Uganda appears to have a CA in agricultural commodities. In light of the results, Uganda exported the following commodities to Kenya in 1994/95: 84,250 metric tons (MT) of maize; 9,300 MT of beans, 13,000 MT of sorghum, millet, groundnuts and rice; some banana; nearly 92,000 MT of fish; cotton; and charcoal and forest resources such as timber. Meanwhile, Kenya supplied to Uganda 16,000 MT of wheat flour although the former is a net importer of wheat from the international market. Other Kenyan exports were petrol, cooking oils, fat, beer, wine, soft drinks, cigarettes, textiles, salt, etc., most of which have had value added. Though Kenya exported about 27,000 MT of sugar to Uganda, it imported nearly 1,300 MT of the same product from Uganda.

From this study, it appears that the unrecorded trade between Kenya and Uganda is at least 150 percent higher than the official trade statistics. Yet, these statistics suggest that the exchange of goods between the two countries is generally low, casting some doubt on the validity and accuracy of the official trade figures. A question that may arise from the discrepancy between the survey-based data and the official statistics is how the latter are collected. What is the methodology used by the official trade statistics?

As for the ICBT between Tanzania and its two East African neighbors, Ackello-Ogutu and Echessah (1998) showed that Tanzania exported coffee, rice, sugar, maize, maize flour and banana, as well as petroleum products to Uganda. Meanwhile, Tanzania registered a trade deficit in industrial goods with Kenya, suggesting that it enjoys a CA in agricultural commodities and that the strength of Kenya lies in industrial goods (cooking oils and toiletries). Even tough Tanzania imported over 1,200 MT of wheat flour from Kenya, it exported nearly 5,000 MT of wheat flour to Uganda, DRC and Zambia. As in the case of wheat flour, Tanzania imported and exported other agricultural commodities during the study period. In fact, it imported about 13,000 MT of sugar from Zambia, Malawi and Kenya and exported nearly 2,400 MT of sugar to the DRC. Tanzania also exported over 5,400 MT of root crops (cassava, sweet potatoes, Irish potatoes) to the DRC, Malawi and Zambia but it imported nearly 87 MT of the same crops from its neighbors. The same pattern of trade was observed for millet and fish, though the export volumes of these commodities exceeded those of imports.

The ICBT studies in Southern Africa also revealed interesting results, providing trade flows in the Malawi-Mozambique-Zambia corridor and Malawi-South Africa-Swaziland-Zambia-Zimbabwe subregion. Maize appeared to be the most important agricultural exports from Malawi to Zambia, although seasonal. Maize was followed by maize flour, Irish potatoes and beans. Large quantities of sugar were also exported from Malawi to Zambia, which in turn exported significant quantities of fertilizers to Malawi, along with secondhand clothes. But, Malawi exported fertilizers, maize and potatoes, clothes, and cement to Mozambique that traded potatoes, vegetables, pulses, maize, fertilizers, secondhand clothes and salt. On the Tanzanian front, Malawi exchanged rice, groundnuts, fish, maize and sugar for beans, vegetables, potatoes and bananas, secondhand clothes and electrical goods. On average, it appears that Malawi's trade with Tanzania was more balanced than with Zambia or Mozambique. For the latter country, its most important trading partner appeared to be Swaziland that exported sugar, meat, groundnuts and maize flour into Mozambique, which exported prawns to Swaziland. Both countries also traded nonagricultural commodities such as cooking oils and margarine, bear and building materials from Swaziland and kitchenware from Mozambique. Mozambique also imported vegetables, Irish potatoes, fruits, eggs and milk from South Africa, as well as significant amount of building materials and electric products. It imported also eggs, milk, sugar and some fish from Zimbabwe while it exported mainly fish to Zimbabwe.

If the 1994-1995 agricultural season is any indication of the magnitude of trade in East and Southern Africa, a great deal of trade takes place in these two regions contrary to the official trade data. The issue is whether the ICBT are driven by CA or policy-induced distortions that create market opportunities along the borders in East and Southern Africa.

5.2 Do informal Cross-Border and Theoretical Trade Flows Match?

The issue of whether the results of the ICBT studies and those of the CA research are in accordance is significant on the grounds that CA-based trade is beneficial to trading partners because it is welfare enhancing. Since Ricardo, economic theory has shown that producers and consumers in both trading countries stand to gain in CA-based trade, as both groups maximize their utility in the face of their constraints. This assumption was the building block of the trade liberalization initiated by Third World countries under pressure from the international community.

Comparison of the CA studies with those of the survey-based ICBT research in Southern Africa seems to show that the CA and ICBT results match for a few products only. Coffee produced in Tanzania is traded on the basis of CA. In addition, maize and beans produced in Malawi move according to this country's CA. Groundnuts, Irish potatoes and sugar supplied respectively by Swaziland, South Africa and Zimbabwe also follow welfare-enhancing trade rules.

As for the manufactured goods including the semi-processed commodities such as wheat and maize flour, it is difficult to make any conclusive statement on the grounds that the CA of the Southern African countries was not assessed for these goods. One can only hypothesize that Kenya and South Africa enjoy a CA in manufactured goods, as they are relatively more industrialized than their neighbors and as a result, they may be relatively more efficient producers of these goods. But, is it enough to produce efficiently in order to enjoy a CA?

The work undertaken by Barry, et al. (1998) in West Africa, though geographically far from East and Southern Africa but at the same stage of economic development, can shed some light into this issue. Indeed, this work showed that Mali enjoys a strong CA in rice production that takes place inland. But, when this rice is moved from the production zones to the coastal markets of Cote d'Ivoire or Senegal, the competitiveness of Malian rice vanishes quickly between the border and those markets, owing mainly to high transport costs. This may be the case if Malawi exports some commodities (maize) to Tanzania, unless they are consumed in markets located not too far from the border and do not attempt to reach the coast. The same observation could be made for Zimbabwe's sugar exports to Mozambique, where transport costs are generally high because of poor road infrastructure. Generally, the further agricultural commodities move from the production zones toward the coastal lines, the more their competitiveness fades away, owing to high transport costs. Conversely, the more consumption of agricultural commodities takes place inland, the better their competitiveness.

Thus, transport costs have a bearing on competitiveness and the direction of trade flows. More importantly, transport costs affect food security, as they are reflected in the final price to consumers. Since poor consumers tend to spend a large share of their income on food and a non-negligible proportion of consumers are poor in the East and Southern African countries, efforts need to be deployed by African policymakers to lower these costs. This is one of the areas where the donor community could help African policymakers.

What this discussion highlights is the fact that the CA studies and the ICBT research provide each some useful information. But, they do not provide a complete picture of the Southern African trade because the CA studies failed to incorporate an important dimension, which is transport cost. This dimension would have been the perfect link between not only market and trade flows, but also between the RTAA CA and the ICBT activities. The important of this link cannot be overemphasized given that the RTAA Transport activity was designed on the premise that transport costs are high in East and Southern Africa and that they constitute a serious bottleneck for spurring intraregional trade. Then, the issue is how important transport costs are in the context of intraregional trade. Addressing this issue will require following the movement of important agricultural commodities such as maize in one of the corridors and tracing its price in different consumption markets. In this respect, it will be important to point out the relative share of transport costs in both the total marketing margin and the final price of the commodity to determine their effect on consumers under different scenarios.

From the results of the ICBT flows, one of the important conclusions that can be drawn is that the direction of trade flows is not unilateral between countries. A commodity may well be exported by one country during part of the year and be imported in other parts of the same year. This observation seems important because it highlights the complementarity between countries, as production is seasonal and is contingent on resource endowments, climate, rainfall level, etc. It also highlights the effects of storage cost on the supply of perishable agricultural commodities. An important issue is whether the reversal of agricultural trade flows is linked to inadequate storage facilities or techniques or the high opportunity cost of capital? Since the answer to this question will determine the policies that need to be put in place to address the storage issue, it is important to launch a study to enlighten policymakers on the basis of empirical findings. The policies designed to address the storage issue can have far reaching implications for food security, especially in rural areas, as not all farmers have the means to carry surpluses over the entire year. At least, the seminal work undertaken by Michigan State University under its Food Security project suggests that a great deal of farmers in rural Africa are net buyers in markets because they tend to sell their production after harvest to fulfill the family cash needs. Then, they reenter the market later during the year as consumers to purchase agricultural commodities for the family food needs[13]. The implication of this important work is that investments aimed at keeping food prices low are essential for farmers, as well as urban consumers and policymakers whose livelihood depends on social stability.

[13] Jane et al., 1994; Jayne and Rukuni, 1993; Stack and Chopak, 1990.

5.3 Driving Forces Behind Informal Cross-Border Trade

The survey-based studies discussed above have shown that CA determined the direction and magnitude of informal cross-border trade for certain commodities for certain groups of countries in both East and Southern Africa. Clearly, the direction of trade between Tanzania and Kenya was driven by the fact that Tanzania and Kenya enjoy a CA in agriculture and manufacturing, respectively. Another example of CA-based ICBT is the direction of trade flows between South Africa and some of its neighbors such as Mozambique. South Africa, which has a solid industrial base, exported its manufactured goods to Mozambique, which in turn, supplied food commodities to the former. Malawi is also relatively more industrialized than Mozambique and exported its maize flour to the northern part of the latter, while Mozambique appeared to have supplied maize grain to Southern Malawi. Such trade flows were shown to increase food supply in the trading countries.

Other factors beside CA seem to have played an important role in ICBT in East and Southern Africa. Key among these were the trade and economic policies enacted in the individual countries. Restrictive economic policies implemented in the same countries seem to have created incentives for traders to engage in informal trade across countries. These policies included import and export quotas, high import and export tariffs, and declaration of foreign currencies following the completion of commodity exports. A good example of a restrictive policy that spurred ICBT is Kenya's announcement of export bans on maize during the poor 1995-1996 agricultural season, which was projected to create crop failure and provided strong incentives to traders to export maize to neighboring countries. Also important in driving ICBT was the monopoly power granted to government-owned marketing boards that typically purchase agricultural commodities at lower prices in order to keep food prices low for urban consumers. Such practices often induced farmers or traders to sell their commodities across the border where prices were generally higher than in the domestic market. Such was the case in Zambia and Zimbabwe[14].

Another important factor driving ICBT in East and Southern Africa has been the different pace of policy reforms across countries, creating a price wedge and sufficient incentives to create trade opportunities. Ackello-Ogutu and Echessah (1998) showed the case of fertilizer trade between Zambia and Malawi. Liberalization of the Malawian fertilizer subsector induced higher fertilizer prices in this country, while fertilizer was still subsidized in Zambia. As a result of these uncoordinated policy reforms, Zambia exported significant amounts of fertilizer to Malawi. It is well known that subsidies on fertilizer usually benefit large-scale farmers because they have enough connection to acquire the quantities they wish. At the same time, small-scale farmers do not often have access to these inputs, paying higher prices despite their relatively low incomes. Thus, economic reforms, when not harmonized in individual countries, may lead to undesirable effects on certain segments of the intended target groups.

14 Ackello-Ogutu and Echessah, 1998.

5.4 Criticism to the Informal Cross-Border Trade and Comparative Advantage Studies

One of the main criticisms that can be formulated against the ICBT activity surrounds the geographical coverage of the research project. It provided important information on Southern Africa and part of the East African region, but left a gray area in the Horn of Africa where extensive cross-border trade appears to take place. Though this activity was endowed with limited resources, it could have diversified its regional coverage better by meticulously selecting the borders to be studied. Countries surrounding Ethiopia are an integral part of East Africa and trade among them appears to have implications for the rest of East Africa, especially Kenya. Failing to extend the studies to the Horn of Africa has also a bearing on the information generated for the commodities traded. Indeed, it is well established that the commodity that dominates the broadly defined agricultural sector is livestock. Providing information of this commodity may have given a heightened dimension to the ICBT studies that focused on crops and some manufactured products only. Little knowledge was generated for livestock, owing to the selection of the geographical area.

The criticism to the ICBT studies holds also for the CA studies that focused on the Southern African region and crops. Livestock comprising live animals, meat and dairy products appears neglected in the commodities studies for the seven countries covered. Very little is known about the relative share of production and marketing costs in the price faced by consumers. As a result, it is difficult to inform policymakers on the constraints to trade and the actions needed to spur intraregional trade and improve food security.

Although the ICBT studies have addressed generally a host of issues, another criticism to them is the fact that they were generally silent on the financial arrangements used by cross-border traders and how the proceeds from this trade were utilized. For instance, were the receipts from ICBT used to further trade of the commodities exchanged, invested in trade of other commodities, invested in non-trade activities, saved for capital accumulation to smooth out consumption over time, etc.? Nor did the studies say anything about the strategies of traders to circumvent obstacles and cope with market risk. Equally important, these studies failed to show the relative importance of transport costs in marketing costs, as well as in total costs. These studies could have been useful in identifying different actors along the marketing chain of the commodities traded to provide information on their share in the wholesale price of these commodities so that policymakers and the stakeholders can identify the gainers and losers of undertaking ICBT. This type of information could have been generated relatively easily, for the marginal cost of collecting data on prices and marketing margins was relatively low.

Another useful information that one might have expected from the ICBT studies is how information is used to strengthen bargaining power and how it affects the degree of the integration between markets located on each side of the borders.

Some of the issues raised in the criticism of the ICBT studies were partially addressed by other research activities such as those undertaken in the Horn of Africa. The collaborative research undertaken by the US-based Broadening Access and Strengthening Input Market

System-Collaborative Support Program (BASIS-CSP) and the Organization for Social Science Research in East and Southern Africa (OSSREA) has shown that livestock markets are integrated but that they involve high risks as well as high returns[15]. From the results of this research, it appears that traders are the main beneficiaries of the increased ICBT in the Horn of Africa. The benefits derived by traders are primarily induced by their ability to take advantage of their social capital such as kinship and connections, as shown by Little (1996). However, herders benefit from ICBT because this trade enhances food security through higher livestock prices and cereal availability. According to the results of the studies, ICBT in the Horn of Africa yields positive externalities in the region, as it spurs other trade and business activities. Such was at least the case for the Kenya/Somalia borderlands where revenues associated with ICBT were reinvested in businesses in Garissa.

As in the case of the ICBT studies, the livestock cross-border trade is hampered by a host of constraints that will be discussed in the following section.

[15] Teka et al., 2000; and Teka, 1999.

CHAPTER 6.
CONSTRAINTS TO ENHANCING INTRAREGIONAL TRADE AND IMPROVING FOOD SECURITY IN EAST AND SOUTHERN AFRICA

There exists great potential to enhance intraregional trade and improve food security in East and Southern Africa if several constraints could be removed. These constraints include policies, institutional factors, infrastructure, transport, etc.

6.1 Tariff Barriers

Tariffs have long been identified as major impediments to enhancing trade among developing countries[16]. According to a study undertaken by the General Agreement on Tariffs and Trade in the late 1970s, tariffs on agricultural commodities and processed agricultural products are generally high in developing countries. East and Southern African countries are no exception to this rule despite the reform programs and membership in regional organizations designed to promote intraregional trade. The fact that seven only out of twenty-one countries joined COMESA zero-tariff FTA is a testimony of the country's persistent desire to levy duties and taxes on imported agricultural commodities and processed goods from the region. This may be the reason why certain regional organizations such as SADC have given the options to its member states to impose duties on the so-called sensitive products as protective measures. Yet, imposition of duties on imported goods is generally incompatible with the desire to achieve regional integration through a customs union. How can trade be fostered if countries do not allow imports and are concerned about increasing exports only?

Given the heterogeneity of the external tariff structure in the countries of East and Southern Africa, steps should have been taken in the RTAA CA studies to document the level of import duties and their distorting effects on the incentive framework in the individual countries. Revealing the government-induced distortions would have required a detailed discussion of the nominal and effective protection coefficients to inform policymakers and help them design coherent policies. Particularly important for policymakers to know is the transfer of resources between the group of consumers and producers to shed light on the distributional impacts of government policies.

6.2 Non-Tariff Barriers

Since the launching of the tariff reductions under the auspices of the General Agreement on Tariffs and Trade (GATT) and the more recently created World Trade Organization (WTO) as a vehicle for world trade liberalization, tariffs are becoming increasingly less intrusive in world trade. Within COMESA, tariffs have been curtailed progressively and were scheduled to be reduced by the following levels over the years for the intra-COMESA trade: 60 percent by October 1993, 70 percent by October 1994, 80 percent by October 1996, 90 percent by October 1998 and 100 percent in October 2000. As stated above, some countries have achieved the stated targets by October 2000. But, other countries have yet to slash their duties and taxes. Even if duties and taxes are reduced by the states, there will still be other constraints to regional trade, for governments have resorted to more subtitle ways to influence

[16] FAO, 1987.

trade. In a way, they deliberately create and impose NTBs with the objective of importing less from their trading partners. These NTBs can take the form of quotas, licensing, product specification, sanitary requirements, lengthy customs procedures, etc.

The African Development and Economic Consultants (2000), together with the Economic and Social Research Foundation (2000) and IMC (2000) undertook some work, under the RTAA Project, to catalogue NTBs in both East and Southern Africa. In the catalogue of NTBs in both regions, several factors stood out as barriers to intraregional trade. Included in these NTBs are the lengthy and cumbersome bureaucratic clearance procedures of goods at border posts, roadblocks erected by government security officials, monopoly power granted to government-owned parastatals for imports or exports, sanitary and phytosanitary regulations, and quality standards that are set sometimes high to restrict the smooth movements of goods and services.

There exist additional NTBs on which the NTB studies did not dwell. One such NTB is the constraint to payments across countries resulting from a weak commercial banking sector in East and Southern Africa despite the assistance from the International Finance Corporation (IFC) to strengthen the payment system. According to several sources, monetary transfer from a commercial bank to its local branches within the same city in the same country may take a few days and much longer with its counterpart in a neighboring country. It is not unusual for a local commercial bank to wire money to another local bank, via a foreign bank that is forced to go through its headquarters in Europe. This process may take several weeks before the transaction between the two local banks is complete. Monetary transfer is made more difficult because most currencies are not convertible outside their home country, notwithstanding the fact that the reform programs contributed to easing acquisition of hard currencies.

Another important source of NTB is the lack of a trade information system to help market participants allocate their resources better. Although traders have access to national market prices, they lack generally information on market prices in neighboring countries. As such, they resort to friends or relatives who are not necessarily experts in trading. Traders also lack often information on product quality and sanitary requirements imposed by both their government and governments in neighboring countries. The main consequence of the lack of trade information has been to induce unduly high transaction costs that have prevented potential traders from entering commodity markets and have reduced competition. As a result, commodity market prices have not fallen as much as they should despite the market reform programs. Traders also appear to lack information on the least-cost source of supply in the region because production figures by product and region within a country are not readily available to traders. Or when they are available, they are so old and outdated that they cannot help traders identify market opportunities. As a result, traders do not necessary purchase their products from the least-cost source of supply. Ultimately, this lack of information adversely affects their competitive position in the commodity markets.

6.3 Transport Constraints

It has been well established that transport costs in Africa are among the highest in the world. They are two to three time higher in Africa than in Asia for similar distances. East and Southern African transport costs are no exception to this general rule. These high transport costs stem from several sources including infrastructure, the mode of operation, policies and institutions.

6.3.1 Infrastructure

A. Road Transport

Through years of neglect and deferred maintenance, the quality of the road network has declined markedly to the point that it is in fair to poor condition. Although recent data are not available for all East and Southern African countries, a COMESA study undertaken in 1996 revealed road conditions as a major cause for high transport costs. This study showed that, despite improvements in some countries such as Ethiopia and Uganda, the network conditions generally declined over the years in other countries. Table 6.1 provides an assessment of network conditions for some selected East African countries in 1996 and shows that nearly tow-thirds of the unpaved roads, which account for the bulk of the road infrastructure, are in poor condition. In addition, over forty percent of the paved roads are also in a similar condition.

Table 6.1. Condition of Main Road Network in East Africa in 1996 (%)

Country	Paved			Unpaved		
	Good	Fair	Poor	Good	Fair	Poor
Burundi	68	20	12	5	30	65
Eritrea	9	15	78	15	7	78
Ethiopia	11	41	48	19	27	54
DRC 1/	na	na	na	na	na	na
Kenya	21	23	56	1	11	88
Rwanda	40	30	30	10	40	50
Sudan	20	40	40	20	20	60
Tanzania	24	76	10	90	na	na
Uganda	80	15	5	52	25	23
Overall 2/	22	36	42	11	22	67

Note:
1. The general condition of the road network in the DRC is poor
2. Overall is the weighted average excluding the DRC

Source: COMESA and World Bank

The poor conditions of the existing road infrastructure have often resulted in the breakdowns of trucks, especially in rural areas where agricultural commodities originate before reaching the major urban consumption centers. Owing to these conditions that cause a reduction in the supply of road transport services, transport costs are adjusted upward and adversely affect the competitiveness of East and Southern African agricultural commodities.

### *B.	Railways*

This mode of transportation has also suffered from a neglect of infrastructure maintenance. For instance, important sections of the Kenya and Uganda Railway networks are in bad need of rehabilitation. So does the *Chemin de Fer Addis-Djibouti*, which is currently developing a project to carry out spot improvements at critical points.

### *C.	Ports*

The major ports of East Africa would also require some improvement. Berth capacity is creeping in Mombassa where additional capacity may be required.

### *D.	Civil Aviation*

Though many regional airports have undergone major renovation in recent years, the existing infrastructure still lags behind international norms. Since the renovation has been completed, many leading civil aviation specialists have raised the issue of whether needed passenger terminal improvements were not undertaken at the expense of freight terminal improvement, as air freight is an important transport mode for non-traditional exports such as cut flowers and frozen fish.

### 6.3.2	Operations and Costs

Not only is road transport costly but also it is unsafe, as annual fatalities are high compared to developed countries. Research undertaken by the Transport and Road Research Laboratory suggests that when all costs of traffic accidents are accounted for, the economic loss from road accidents may approach one to three percent of GDP.

As for the rail subsector, poor operating practices, combined with poor track condition, have led to frequent derailments. In addition, wagon availability remains a problem for all regional railways. One of the solutions proposed to address this problem is to lease the wagons to freight forwarders. Concessionization has been proposed also as a solution and appears to be helping reduce the costs of rail transport to shippers.

The operation of ports has long been problematic in East Africa. However, recent investment at Assab and Massawa is contributing to the smooth operation of Eritrean cargo. Djibouti and Berbera now handle the bulk of traffic destined for Ethiopia and appear relatively efficient in regional terms. Investment and improvement in the Port of Mombassa seem to contribute to the reduction of shippers' costs through higher shipside cargo-handling rates and reduced cargo dwell time. Similar benefits may be derived from the concessionization of the container terminal in the Port of Dar es Salaam.

Inland waterway operations are known to be inherently cheap but they have been affected by delayed vessel maintenance on the part of regional rail parastatals. It is hoped that the concessionization of the regional rail operations will also yield some benefits in this area.

Another element contributing to high transport costs is the high transit time that induces additional inventory costs for regional shippers. Moreover, high transport costs are caused by the reduced turnaround in transport equipment, which spends a lot of time in queues and relatively little time in productive haulage. Turnaround time in East Africa is at least three times higher than in developed countries (e.g., 3.1 and 3.6 days in Europe and North America, respectively, while it amounts to 14 days in East Africa). This appears to be one of the reasons why road haulers are reluctant to invest in new plant and equipment.

6.3.3 Heavy Taxation of the Transport Sector

Generally speaking, the transport sector is taxed heavily. Road vehicles tend to attract the high end of import duties, although commercial vehicles tend to be taxed at lower rates. Excise taxes are imposed on several categories of vehicles while the Value-Added Tax (VAT) ranging between 15 to17 percent throughout the region is levied on all vehicle imports.

The single biggest reason for the high rate of taxation on the transport sector lies on the taxes imposed on fuel. Fuel taxes are attractive because of:

- the efficiency of collection, as one clerk and one inspector collect taxes per oil company; and
- the relative inelasticity of demand for petroleum products.

Uganda provides a representative snapshot of the levels of taxation on vehicles and fuel. In fiscal year 1998/99, charges of all types levied on road users amounted to 27 percent of Government of Uganda (GoU) recurrent revenue. Of this, some 12 percent of the GoU recurrent revenue was raised from taxes and levies on fuel. Less than 35 percent of taxes raised on fuel were actually allocated to the road sector, showing the importance of transport taxes in government revenue. It is useful to note that the revenue raised from the transport sector is considerably higher as a proportion of government recurrent revenue if the taxes and levies on spare parts and the VAT raised from the civil aviation, ports and maritime, and rail subsectors are added to the taxation of the transport sector.

6.3.4 Institutional Issues

As has been noted above, significant steps have been taken to reorganize the operation of transport infrastructure and maintenance. The remaining institutional constraints limiting the performance of the various transport subsectors are those indicated below.

A. Roads

The reorganization of the delivery of road construction and road maintenance by commercialized road agencies implemented in a number of countries is well advanced. The road agency model, with a significant input from road users in their governance, entails the progressive transfer of execution of works from the public to the private sector. However, it has been found that the management of the larger number of contracts involved has taxed to the limit the ability of the existing transport professionals to manage. The donor community has had to recognize the reform effort to reflect this reality. It must be noted that, like other sectors, the early death of promising young professionals has further reduced the capacity of the regional transport organization to adapt to change.

B. Railways

The railway agenda appears clear. Concessionization offers the opportunity for rehabilitating infrastructure, ultimately reducing rates to shippers and improving the delivery of a fully functioning railway to government at the end of the concession period. The previous efforts at commercialization have borne fruit and the path is clear. All operating railways in the region are receiving sufficient technical and capital assistance to ensure their forward progress, except the Eritrea State Railways and the Sudan Railways Corporation.

The restructuring plans adopted on regional railways have reduced the social overhead of railway operations. In addition, initiatives such as the KR/URC block train operation between Mombassa and Jinja have significantly reduced the travel time of cargo. However, managerial resources are stretched and make coping with the pending and implemented changes difficult.

C. Ports

The difficulties in the operations of regional ports were comprehensively described in the RTAA-supported analyses of comparative transport costs in East Africa and the Horn of Africa.

For East Africa, they include:

- inadequate information flows in the light of a weak communication infrastructure,
- lack of spatial facilities for transit cargoes,
- inadequate port security, and
- inability of regional railways to clear cargo in a timely fashion.

The success of the Kenya Port Authority (KPA) and its partners in reducing port transit times shows that many of these problems are capable of solution with nothing more than a change in procedures and the development of the part of port management of a commercial approach to port operations that puts the customer (shipper) first.

For the Horn of Africa, it includes:

- lack of maintenance of port cargo-handling equipment,
- inadequate stock of port cargo-handling equipment,
- tariff structures unsuited to current trade conditions,
- lack of a commercial orientation in port operations, and

- lack of an adequate communication infrastructure.

D. Civil Aviation

Most countries in the region have established civil aviation authorities. Although many airports are still under the grips of parastatal airport authorities, airport management tend to be aware of the limitations of the current passenger-oriented approach at the expense of freight. Regional rules of the entry of new carriers are much less restrictive than was previously the case.

E. Clearing and Forwarding Agents

This vital component of the transport chain is hampered by continuing state control in Eritrea and Ethiopia. In East Africa, the problem of "brief case" forwarders whose propensity to offload LLC cargoes in the countries of transit is gradually being addressed. The local operations of the multinational freight forwarders are capable of providing a world-class service but continue to be hampered by inadequacies in the provision of customs and surface transport services.

F. Customs

With the exception of the Port of Mombassa, regional customs organizations and procedures are not equipped to ensure the smooth delivery of goods and services. Yet, a significant share of government tax revenues in the region originates from the imposition of import duties and excise taxes. Assessing customs operations, Oyango noted that the following problems remain:

- restricted hours of operation,
- poor physical infrastructure and communications facilities,
- duplication of paperwork,
- excessive bond requirements, and
- lack of application of COMESA rules.

Generally speaking, lack of adherence to the regional agreements is pervasive in East and Southern Africa. For instance, Kenya, with a goal of preserving its road network, has imposed a non-steering axle load limit of eight tons against ten tons specified by COMESA. The imposition of this limit by the Kenyan authorities in the late 1990s caused rates on the Northern Corridor to temporarily jump by 50 percent until private sector operators started their own weighbridge programs to render their vehicle compliant. Similar problems persist along the road and rail routes between Djibouti and Ethiopia. Djibouti was not implementing, until recently, the COMESA rules governing transit trade.

Another institutional constraint is the lack of coordination between the Immigration and Customs services at many cross-border posts, leading to duplication of efforts and unnecessary delays at these posts.

CHAPTER 7.
RECOMMENDATIONS TO ENHANCE INTRAREGIONAL TRADE AND IMPROVE FOOD SECURITY IN EAST AND SOUTHERN AFRICA

As indicated above, the potential for enhancing intraregional trade in East and Southern Africa is great but various constraints stand in the way. The challenge facing policymakers in both regions is to design a comprehensive strategy to take advantage of the natural complementarities rather than take advantage of policy-induced distortions, which are a source of rent-seeking behavior. To this end, the following recommendations are proposed for greater food security in both regions.

7.1 Improve Comparative Advantage

The CA studies conducted almost exclusively for Southern Africa revealed that different production zones within the different countries have different CA in agricultural commodities, owing to different resource endowments. In the regional context, one implication of these studies is that countries need not supply and be self-sufficient in all commodities to ensure their food security. A country may supply and import the same commodities during the same agricultural season, depending on a host of factors including rainfall, climatic conditions, CA, market conditions, etc. As such, a country may be on balance either a net importer or a net exporter. Being a net importer does not necessary mean being an inefficient producer and a loser of foreign exchange to trading partners. Each country should rather focus on improving its CA for mutually beneficial trade.

The first step in improving CA is to design and implement coherent macroeconomic and trade policies well. Of particular importance among these policies is the exchange rate that should not be overvalued. Currency overvaluation tends to favor imports at the expense of exports because they make the former artificially inexpensive. It also distorts the incentive structure by shifting resources to the production on importable commodities. Equally important is liberalization of capital markets to provide incentives to the export sector so that surrounding part of foreign currencies to the government is not perceived as a hindrance to export activities. The reform programs should also aim to liberalize the domestic marketing system in order to increase competition and induce greater integration among domestic markets and between these markets and foreign markets.

Regional, CA-based trade has suffered from lack of government commitments to carry out deep reforms. Policymakers have sometimes resorted to delays and reversals of policies to protect vested interests. As a result, the pace of policy implementation has been uneven in the region. Steps need to be taken to speed up the process of policy reforms in those countries where strong commitments have not been forthcoming to even out the playing field so that the private sector can take advantage of market opportunities. For sake of transparency and efficiency, East and Southern African policymakers need to take steps to harmonize grades and standards and publish information on these throughout the two regions.

An additional measure to improve CA lies in improving East and Southern African farming systems, which have been characterized by low factor productivity. In the agricultural sector, modern input use has been low, partly because of a dysfunctional credit market, making it difficult for farmers to have access to inputs. It was hoped that the dismantling of government-sponsored credit institutions would open new opportunities that the private sector would seize. Unfortunately, the vacuum left has not been filled by the private sector, which has been hampered by lack of credit from international suppliers. As a result, input traders have required that farmers purchase input on a cash basis. On rare occasions that credit is available to farmers, input prices appear to have been set high relative to output prices, owing to high transaction costs. In other cases, farmers appear to have been reluctant to use input purchased in the open market because they feared that their commodities would not respond to the modern input. Such reluctance to using imported inputs is partly caused by the lack of quality control supposed to be undertaken by public institutions. As the issue of quality control is widespread in both regions, it could be addressed if there were concerted efforts between governments and the private sector to define input standards and needs for the different types of commodities. The private sector needs also to coordinate input import schedules across borders in order to create economies of scale and reduce unit cost, thereby curtailing farmers' costs and encouraging farmers to utilize modern inputs in order to improve soil fertility.

7.2 Reduce Transport Costs

The importance of transport costs cannot be overemphasized in the context of intraregional trade because they determine the direction of trade and the competitiveness of the economy at large. Lowering transport costs will require increasing investments in infrastructure to link production zones in rural areas and facilitate commodity transfer from these zones to the urban consumption markets. Investment in infrastructure entails first maintenance of the existing roads, railways, ports (sea and air) to avoid decay to the point where it becomes cheaper to build new infrastructure than to maintain the existing one. Large-scale improvement programs are underway in Ethiopia and Uganda, with other physical road improvements being implemented in most of the countries of the region, albeit at a lower scale. Roads connecting other countries are being improved in most countries.

The road reform agenda is also being advanced in all countries with Ethiopia, Kenya, Uganda and Tanzania leading the way. Such efforts appear to be taxing the absorptive capacity of available road subsector management resources. The impact of road investments and reform will generally be to lower vehicle operating costs and road freight rates.

As regional railways have received considerable investment over the past twenty years, physical plant and infrastructure should not be a constraint in most cases for years to come. However, there are a few exceptions:

- The *Chemin de Fer Addis-Djibouti* requires extensive rehabilitation although the EU is addressing some of these requirements.
- A section of the Jinja–Malaba line requires realignment for more efficient operation of the rail infrastructure.
- The Kisumu Branch line of Kenyan Railways operates with weight and speed restrictions because of an inadequate rail gauge.

Lowering transport costs also means building new transport infrastructure to accommodate the increasing demand for transport services resulting from population and income growth. Given that investments in new transport infrastructure are costly in general, it is better to phase out the financial outlays and concentrate on high potential commodity production areas where agricultural activities are viable or could be made viable following the investment. This is where undertaking relevant research could help guide policymakers in prioritizing the use of scarce resources.

Strategies to lower transport costs and foster intraregional trade flows could include the following:

- Harmonize axle load regulations, transit charges and trade documentation.
- Get service providers to respect the existing rules on axle load limits at both the national and regional levels.
- Improve operations of transport modes through reduction in turnover time, roadblocks, delays at check points, and respect of COMESA yellow cards.
- Upgrade information available to shippers along the various trade corridors. The implementation of the ACIS promises to assist in this regard, but it is likely that corridor level websites such as those existing in the SACU region could further enhance the information available to regional shippers.
- Initiate further progress in the efforts by regional customs authorities to expedite the smooth passage of transit goods.
- Consessionalize further the regional railways and ports to serve transit countries as well as the host country. This process is well advanced in Tanzania. Plans are under way to concessionize rail and port operations in Tanzania, as well as rail operations in Uganda and rail operations between Djibouti and Ethiopia. The implementation of concession agreements could be usefully monitored to discover what works and what does not work.
- Continue the involvement of the private and public sectors in initiatives such as the one recently undertaken in the Port of Mombassa.

There are many overlaps between the steps necessary to improve regional transport systems and domestic transport operations. The single most important item on the agenda is to improve the delivery of road maintenance through the continued commercialization of the road subsector. The improvement of regional airfreight facilities will prove to be beneficial to regional trade flows. In many cases, the improvement of domestic transport infrastructure and operations benefits regional shippers as well. It would seem sensible for any transport initiatives to be undertaken at the regional level through existing institutions.

It was worth noting that the RTAA Project has helped to put in place an Inter-agency committee to coordinate transport issues, with the objective of reducing transport costs in both East and Southern Africa. This committee is composed of national government agencies and regional organizations such as COMESA, SADC/SATCC, EAC, IGAD, PMAESA, TTC, and ECA. It also includes the private sector represented by the Uganda Commercial Truck Owners Association, Malawi Transporters Association and Zambia Federation of Haulers. It is hoped that the private sector will be expanded to other modes of transport in order to take into account their interests.

7.3 Policy Harmonization/Convergence and Improvement in Domestic Financial Sector

In the context of a gradual return to macroeconomic stability, good progress has been achieved in most East and Southern African countries in the liberalization of exchange regimes. This is reflected in the widespread elimination of restrictions on external account transactions and the shift towards market-based exchange rates. Macroeconomic policies have become the key instruments in promoting exchange rate stability and containing inflationary pressures.

The fact that government revenue is still dependent on trade taxes because of a low internal tax base constitutes a major impediment to intraregional trade. As such, trade tariffs are kept relatively high despite the existence of regional organizations. Because of the relatively high tariffs, efforts need to be deployed by East and Southern African governments to broaden the tax base and reform trade policies to lower their maximum tariff rates to reasonable levels. In this endeavor, other duties and charges outside the basic tariff structure need to be eliminated.

NTBs represent the biggest threat to intraregional trade. Given that NTBs are the most distortionary aspects of trade regimes, the future agenda should focus attention on eliminating them as a priority. One useful way of eliminating these NTBs is to list them exhaustively in the agreements of the regional organizations, enforce implementation, and make no exception for individual countries. Steps should be taken to make these NTBs consistent with the WTO obligations so that the East and Southern African countries can prepare themselves to compete in the global market.

A sound financial sector and an efficient payment system are key ingredients into enhancing intraregional trade flows. Despite the reforms to create the enabling economic environment and the assistance from the IFC to solidify the financial sector, new efforts need to be deployed to improve the prudential and supervisory capacity of the central banks so as to develop the commercial banking sector and other private financial institutions. With an improved payment system within each country, correspondent-banking relationships can be established at the regional level to facilitate cross-country payments. In this regard, the private sector, specifically the EAEN and the SAEN, can play a useful role in facilitating links between commercial banks. These two networks can do so by following the footsteps of their sister network in West Africa. Indeed, the West African Enterprise Network (WAEN) took steps in the mid-1990s to facilitate the relationship between two major commercial banks by asking its members to use these banks for cross-country operations. Thanks to this initiative, payments between the WAEN members have eased and accelerated significantly across the two banks and across countries to the point where the Economic Community of West African States (ECOWAS), the dominant regional organization in West Africa, is helping to replicate the model.

7.4 Improve Investment Environment

One major area that needs improvement is the reform and harmonization of the regulatory environment for investment. Major efforts need to be deployed to simply, streamline, codify, and publish investment procedures in each country. There is a need to establish a one-stop investment center in each country to grant approval expeditiously within a timeframe. The centers would need to exchange regularly information on investment requirements including immigration matters and taxation. This information needs to be made accessible to the public audience so that it can create a more transparent business environment.

Most countries have taken steps to design investment roadmaps with the help of the donor community. Notwithstanding the results realized, these roadmaps seem often too general and too dense for potential investors to spend time to digest them. They need to be short. They also need to focus on the main points that potential investors seek to make their investment decision on a timely fashion. Equally important for investors are the cross-listing of firms in the existing national stock markets and the setting up of a regional stock market to create investment opportunities at a relatively larger scale. A complementary measure to increase investment opportunities would be to relax visa requirements for potential investors.

7.5 Streamline and Strengthen Regional Organizations

The discussion above on regional organizations revealed that they exist numerous organizations that lead sometimes to confusion for member countries. Although the objectives are generally convergent, they are sometimes a source of conflicts that can paralyze achievement of major goals. A careful look at the existing organizations suggests that they can be streamlined to two or three organizations that would take into account the regional disparities. It is not unreasonable to design a region-wide organization under which other organizations would carry out their separate activities. Streamlining the number of organizations could contribute to reducing duplication of efforts and waste of scarce resources that have been provided often by generous international donor agencies.

The rationale for streamlining regional organizations is not only to reduce resource waste, but also to facilitate capacity building. Under the constellation of regional organizations, it is difficult to assist them meaningfully to improve the human power and build capacity. Strong regional organizations need to be built to promote development at large and to help prepare African countries to compete in world markets. For the existing organizations, they need to abide by the rules of the WTO and this can happen only when the staff develops deep knowledge of these rules. Also important for the staff of the regional organizations is the need to participate in designing the rules of game. Doing so requires building African capacity to take position on international issues and negotiate on the basis of solid arguments.

7.6 Design a Regional Market Information System

One of the objectives of increased regional trade is to bring about integration of commodity markets for efficient resource allocation. When markets are well integrated because information flows freely across markets, commodities are moved efficiently from surplus production zones to deficits markets. The flow of information depends on the efforts that market participants deploy to acquire it and on the incentives they face to release information. Information will flow freely if its cost is affordable to these participants and if it is readily available to them. In this case, transaction costs are relatively low in the marketing system.

With the reform programs, most governments in East and Southern Africa have invested in market information systems to make information available to market participants. The goal of these investments is to foster competition and make markets more transparent. Market prices for agricultural commodities are collected regularly by government-sponsored agencies and have contributed to increased marketing efficiency at the national level. However, this price information is available only within the national boundaries. Efforts to communicate these prices beyond the individual countries have been few in Africa. The experience of IGAD in this domain is worth mentioning, as it has centralized and published price information. IGAD has consolidated the price data and posted on its website, albeit with some delays. Though the usefulness of IGAD experience has not been tested yet, it is not unlikely that traders who aim to undertake trade activities at the regional level have made good use of IGAD price information. If this experience proves to be useful, it will be worthwhile expanding it to other countries in East and Southern Africa so that a trader who plans to move an agricultural commodity from one country to another will do so on the basis of complete information. Making market information available to traders can become a powerful tool for increasing regional trade, provided that other barriers to trade are removed.

CHAPTER 8.
AGENDA FOR ACTIONS FOR USAID

This chapter aims to lay out an agenda for actions for USAID/REDSO to foster food security in East and Southern Africa through increased intraregional trade. This agenda will focus on practical actions that USAID can take to achieve its goal.

8.1 Build and Strengthen Regional Capacity

8.1.1 Strengthen Capacity of Private Sector to Organize Itself

The private sector in East and Southern Africa has taken the necessary steps to organize itself at the regional level since 1998. It lacks, however, the strength and power to influence the policy reforms undertaken by the national governments under the aegis of the international and regional organizations. Because the regional networks can play a major role in the future, donor agencies could help to speed up the process by providing them technical assistance. The case of WAEN) is telling in this regard. WAEN participates in regional meetings and is consulted by both national governments and international organizations in the design of policies. WAEN has learned, through technical assistance, to lobby the ECOWAS members and influence decisions that affect the private sector. Though heavy financing and excessive donor involvement in private sector networks can divert them from their stated goals and stifle their functioning, technical assistance at the onset of the networks may help to set priorities. It can also help to build momentum by enabling network members to participate in the meetings of the network and contribute effectively to the debates so that the network is in a position to propose relevant measures to address key issues.

Contribution of donor agencies to trade debate is not, however, a substitute for an active involvement of network members. The network needs to choose its members and leaders carefully on the basis of objective criteria. The role of technical assistance is just to set the agenda right and channel energies toward achievement of the goals set. Technical assistance could also help to identify the major issues at stake, dissect them and propose alternatives in order to improve the enabling environment for the private sector.

8.1.2 Assist Regional Enterprise Networks in Organizing Trade Fairs, Fora and Other Business Meetings

Following discussions held with the private sector in both East and Southern African regions, it became clear that it wants to play an active role in promoting regional trade and become the engine for achieving food security in these regions. Notwithstanding its contribution to improving efficiency, it is confronted with major difficulties, particularly in organizing trade fairs and fora aimed at displaying commodities or goods. National private sector members feel that, sometimes, they have goods that they can supply to markets outside their home country, but they have difficulties matching supply with demand. Other times, the constraints facing the private sector is to have access to information on the least cost sourcing in the regional markets. Both problems result in inefficiencies in intraregional trade.

Donor agencies, especially USAID who has experience in helping bridge supply and demand, could contribute to address this crucial problem in East and Southern Africa. USAID could assist the regional enterprise networks in organizing rotating trade fairs and fora designed to display goods that would be potentially traded and enhance business opportunities. The cost of organizing these trade fairs or fora could be borne entirely by USAID during the first year and the private sector would finance the cost of attending the meetings. It is envisioned that the private sector would take over progressively the costs and bear the full cost of the activities at an agreed on timeframe. Helping the regional network undertake such rotating trade shows and fora could be beneficial to the regional market because they could help to provide information on the potential sources of least cost supply, increase awareness of product existence to consumers, and contribute to enhance demand in the region.

8.1.3 Assist Regional Organizations in Designing an Efficient System for Rules of Origin and the Common External Tariff (CET)

Although most regional organizations have defined objective criteria for defining rules of origin, these criteria are not easy to operationalize. Such is for instance the case for COMESA for which products must meet the following conditions to qualify for preferential treatment:

- They should be wholly produced.
- The value of imported material content should be lower than 60 percent of the total cost of the material used to produce the goods.
- The local value-added in the process of production should account for at least 35 percent of the ex-factory cost of the good.
- The goods should be listed in the category designed by council as goods of particular economic importance to the development of the member states and the local value-added should be at least 25 percent.

Given these conditions, how to break down the cost of a good that is produced by using a technique that is based on imported and local elements, which also contain imported and local inputs? Clearly, operationalizing the concept of rule of origin is not an easy task and calls for a technique to address the complex issues. USAID could assist regional organizations in designing an operational system that would be acceptable to the majority of their member states so that conflicts would be minimized.

One of the biggest challenges facing regional organizations aiming to become customs unions is to design the CET vis-à-vis third countries. Experience has shown that the design of the CET is tricky and needs to take into account the notion of trade creation, while keeping in mind the notion of trade diversion. Because most East and Southern African countries depend on external trade for government revenue, the CET needs to be set at a level high enough to generate government revenue while encouraging intraregional trade. Striking the balance between these conflicting goals is not always easy and requires good knowledge of the different sensitivities.

The importance of setting the CET at the right level cannot be overemphasized for COMESA because South Africa is not one of its members and this country is the dominant force in the regional economy and trade. The challenge for COMESA is to set the level of the CET attractive to South Africa to join COMESA without threatening the competitiveness of the commodities produced by other countries.

As experience has shown in other parts of the world, implementation of the CET is subject to delays resulting generally from poor design or lack of taking into account all the sensibilities of the member states of regional organizations. The design of the CET is a long process requiring experienced technical staff that can reconcile raising optimum revenues for the national governments and supplying goods to consumers at affordable prices.

8.1.4 Improve Capacity of Regional Organizations in WTO Negotiations

Another challenge that regional organizations in East and Southern Africa are likely to face in the coming years is to design rules that are in compliance with the WTO obligations and rules. The staff of the organizations will certainly participate in international negotiations, but before doing so, they need to learn the techniques of effective negotiation in order to defend the interests of East and Southern African countries. The staff needs to be aware of the positions of the developed countries, as well as those of other developing countries, in a way that lends itself to using their arguments to counteroffer. In this regard, the staff of regional organizations, along with the private sector, could benefit significantly from attending training courses or workshops designed specifically for developing an understanding of the current WTO rules, their origin and development into worldwide legislation.

8.1.5 Assist Regional Organizations in Designing Competition Policy

With the advent of the FTA in most regional organizations, genuine competition needs to take place not only among national firms, but also between them and others. This competition is possible only if regional organizations take steps to address the issues surrounding national monopolies and define the rules of the games for companies operating in the open market. This task is complex and requires multidisciplinary teamwork including lawyers, economists, technical specialists, etc. to collaborate and come up with acceptable rules. Open competition at a large scale is fairly new in East and Southern African countries and most of them have not dealt with setting competition rules. With the assistance from more experience competition specialists, the regional organizations could venture into this new area.

Setting competition rules entails first defining grades and standards, along with sanitary and phytosanitary measures that can be used as the basis for objective rules to bring about transparent and efficient markets. In this vein, regional organizations could be assisted in reviewing the different national legislations, if any, so that a common ground is developed to make it easy to enforce rules and regulations.

8.1.6 Assist Regional Organizations in Putting in Place an Efficient Payment System for Transactions

It is important to create the enabling environment for the commercial banking system to strive. In the short term, the large commercial banks in the region should be encouraged to open branches cutting across national boundaries to curtail delays in payments and facilitate payments in foreign currencies. This task will not be easy, however, given the existence of numerous non-convertible currencies in both East and Southern Africa. This diverse set of non-convertible currencies proves to be a major challenge for policymakers, especially for the COMESA policymakers who aim to achieve a monetary union. Given the complexity and intricacies of monetary unions, COMESA staff would benefit greatly if they could share the experience of the former French colonies of West and Central Africa that share a central bank. Though these two experiences are not ideal because of the rigidity of the system in place, they provide a stepping stone for COMESA on the grounds that useful lessons can be learned from them.

8.1.7 Assist Regional Organizations in the Harmonization of Axle Load Regulations, Customs Procedures, Transit Charges and Fees, and Transit Transport Instruments

Under the RTAA Project, several regional organizations (COMESA, SADC, EAC, IGAD, PMAESA, TTC, ECA), along with government agencies and the private sector, have come together to address transport issues in both East and Southern Africa. It is within this framework that a USAID-funded workshop was held in Lilongwe, Malawi in August 2000 on axle load limits. The recommendations of the workshop concerning harmonization of axle load limits and gross vehicle mass can be summarized as follows:

- The ten-ton non-steering axle group, the eighteen-ton tandem axle group, the twenty-four-ton tridem axle group and the fifty-six-ton gross vehicle combination must be adopted.
- The penalties for overloading should be borne by either or both the consignor and the transporter and should be commensurate with road damage caused by the overload vehicle.
- A harmonization program for determining and collecting penalties should be put in place. The penalty fees should be used to improve road maintenance and construction;
- Issuance of an axle load compliance certificate should be encouraged, a certificate only being issued if the vehicle is found to be within the legal limit.
- Harmonization of measures, procedures and rules governing axle load control is recommended.
- Training and sensitization of stakeholders, and the setting up of an institutional framework to improve the sector performance should be introduced.
- The requirements for the transportation of hazardous goods should be harmonized.
- COMESA and SADC should discourage the use of the thirty-two-ton group configuration.
- The choice of transporting goods by road or rail should be governed by market forces.[17].

Following further consultation, the transport experts of ECA and the Subregional Development Center for Southern Africa presented a *Draft Framework for Implementing the Axle Load Control Program* at a meeting held in Nairobi, Kenya in January 2001. This draft

[17] COMESA, "Report on the Workshop on Axle Load Limits, Lilongwe, Malawi." August 2000.

framework outlines a series of steps to be taken by the member states of COMESA, EAC, SATCC, TTCA, IGAD and ECA under a coordinating committee comprised of representatives of these organizations and stakeholders. Harmonization of the axle load limit is only one part of the harmonization agenda. It is suggested that the initial tranche of the work focus on axle load limit harmonization, management of weighbridges, and standardization of equipment. Concurrently, a design element relating to the harmonization of transit transport facilitation instruments, border post operation and customs issues could be developed later.

The synergy created by the RTAA Project should be encouraged and taken over by the regional organizations and the stakeholders to make the process sustainable. As such, provision of technical assistance at the completion of the RTAA Project would be a worthwhile endeavor to be undertaken by USAID.

8.3 Foster Dialogue Between Regional Organizations, Public and Private Sectors

The discussions held with the different stakeholders of regional trade have been useful. The main outcomes of these discussions were that there are not enough dialogue and consultations between the regional organizations and the public sector on one hand, and the private sector on the other hand. The lack of consultations was particularly raised by members of EAEN and SAEN, the two regional private sector networks in East and Southern Africa. It appears from the discussions that the networks have not been consulted and invited to meetings pertaining to regional trade. Yet, these networks could contribute usefully and greatly to the debates on regional trade issues because their members are well trained and have proved to be successful business people.

One major contribution that the donor community at large, and particularly USAID, could make is to help improve dialogue between the regional organizations. The donor community is in a position to advise regional organizations on the creation of a consultative forum in which every organization will be represented. The objective of this forum is to create a synergy and avoid both duplication of efforts and conflicts arising from the mandate of each organization.

The donor community can also help to improve the relationship between national and regional public institutions on one hand and the private sector on the other hand. One means to improve this relationship is to create a private sector department in each regional organization to liaise with the national and regional private sector organizations. The task of such a department would be to promote the private sector and to make sure that this sector is invited systematically to the regional high-level meetings. Private sector participation in regional trade meetings cannot be overemphasized because it is the engine of trade growth and the source of sustainable food security.

8.4 Strengthen the Relationship Between Policymakers and Researchers

Another source of low impact of the regional initiatives on enhancing intraregional trade is closely linked to the lack of strong relationship between policymakers and the research community. It is felt that public policies are designed without taking into account the many dimensions of their impacts on the various stakeholders because in-depth applied policy research is not undertaken before hand. Yet, the pool of researchers that could contribute to the policy debates and enlighten policymakers has grown over the years. There are many foreign-trained African researchers who are waiting to be called on to reflect on the impact of policy changes on regional trade. The constraint facing these researchers is the lack of resources to undertake relevant policy research at both the national and regional levels.

USAID could contribute to the improvement of the relationship between policymakers and researchers by encouraging the creation of strong research units in the regional organizations. These units need to be endowed with adequate resources to undertake policy research. Research needs to focus on burning issues and clearly indicate who the gainers and losers are under different policy scenarios to provide options to policymakers. Such should have been the case before the advent of the COMESA zero-tariff FTA to assess its impact on the member states and other stakeholders.

Regional organizations in East and Southern Africa will likely face challenges in the future. The proposed policy changes with regard to tariffs, NTBs, axle load harmonization, customs regulations and transit procedures will likely raise many issues for not only the public sector but also the private sector. Convincing arguments will need to be put forward to explain why certain policy measures are proposed or desired as opposed to others and applied policy research can help to show the various dimensions of the issues. This is one of the reasons why research units in regional organizations need to be strong in order to undertake relevant applied research to enlighten policymakers.

8.5 Put in Place Web-based Information Systems

The objective of the web-based information system is to provide accurate and timely information to market participants. The advantage of this system is that it can consolidate all types of information in one location that is easily accessible by stakeholders. USAID assistance in this endeavor is to help finance the design of this web-based information system. Once the system is running, its maintenance should be the responsibility of the regional organizations. Ultimately, the private sector can take over the maintenance because it will benefit from the information system. The first proposal than could be made for this web-based information system is to follow the experience of IGAD and enlarge the country coverage. It is anticipated that the information system will include the following: national and regional production and market prices for unprocessed agricultural commodities and livestock products; national import and export regulations and investment requirements; and harmonized regulations of axle load limits, customs procedures, transit charges and fees, and monitoring of concession agreements.

8.5.1 National and Regional Production and Market Prices for Unprocessed Agricultural Commodities and Livestock Products

The individual countries need to continue gathering data on the production of agricultural commodities and livestock at the national. These national data need to be broken down into regional and subregional data and provided twice a year, with the production estimates shortly after harvest and the final production later during the year. Each country will be required to send its production data to the unit in charge of the web-based information system so that traders who intend to import or export agricultural commodities can locate the surplus and deficit regions and subregions in each country.

In addition, each country will be required to send its price data to the central web-based information system. As most countries have in place a system that collects price data once a week, steps should be taken to feed the weekly data as soon as possible to the central unit so that market participants have access to updated information. With the rapid development of the Internet in most countries, the feeding of the price information can be done daily for at least the urban markets to enable market participants to tap into potential trade opportunities.

As most farmers are illiterate and have little means to access the Internet, one useful tool to provide them some timely information is to use radio broadcast. Farmers typically own a radio and as such, they can be targeted via wide-audience radio stations such as Africa No. 1, the British Broadcast Corporation (BBC), Radio France Internationale (RFI), etc. The television stations could also be used to broadcast price information and reach farmers so as to help them allocate their resources better.

8.5.2 National Import and Export Regulations and Investment Requirements

The web-based information system is also intended to provide national import and export regulations in order to enable potential traders to learn about the rules of the game in commodity trading. These regulations need to include duties and taxes for each regional organization, as well as non-tariff regulations such as sanitary and phytosanitary requirements, grades and standards, etc. Equally, all national investment rules and regulations need to be made public so as to inform potential investors on what they can or cannot do in each East and Southern African country.

8.5.3 Harmonized Regulations of Axle Load Limits, Customs Procedures, Transit Charges and Fees, and Monitoring of Concession Agreements

Following the fabulous job done by the RTAA team in disseminating the results of its axle load limit activity to the stakeholders in East and Southern Africa, the time is ripe to make these results available to the general public. A website for axle load limitations will be a modest endeavor limited to posting new developments every three months, as well as maintaining current regulations, customs procedures, transit charges and fees, border post hours of opening and closing, and monitoring of concession agreements. This website could be very useful for regional transport operators that enter the transport sector for the first time because they may be unaware of most rules and regulations. In addition, other operators such as freight forwarders and shippers, as well as government agencies like customs could benefit greatly from the website. Cargo consolidation is a key requirement for the development of trade in small consignments. As such, it is important that shippers be aware of the risks that they face from consolidation of cross-border trade through the website. The web-based information system could be an important tool to assess the usefulness of the dissemination mode by monitoring and keeping track of the visitors of the site.

Before launching a large-scale regional operation in transport area, efforts need to be deployed to try a website for the TTCA of the Northern Corridor, which has been the most successful corridor groupings in Africa because it was modeled originally on the European TIR system. The justification for the proposed initiative arises from the limitation of the current state of affairs resulting from:

- The information systems in place are inappropriate to meet the requirements of shippers, operators and facilitators for timely information on corridor conditions.
- Stakeholders do not have a significantly detailed and well-organized information system on which to base forward planning.
- Customs agencies lack the forward notice of consignment arrival at each border post.
- Effective data exchange between various economic operators is hampered by the lack of an adequate forum for information exchange.
- Donors continue to spend large amounts of money to collect data that are readily available but lack merely a dissemination forum.

8.6 Conclusion

The survey-based research initiated in 1994 under the aegis of the RTAA Project to develop an understanding of the magnitude and driving forces of ICBT in both East and Southern African regions has yielded valuable results. The principal outcome of this seminal work is that the magnitude of ICBT is much greater than previously thought and that ICBT is driven primarily by the high transaction costs of engaging in formal trade. These costs are induced by public policies. An important finding of the research is that ICBT plays an important role in mitigating food insecurity by making goods available to areas that would otherwise be left out of the market and providing income to small-scale private traders. Under the auspices of the RTAA Project, the CA studies have also shown that most production zones within individual countries are efficient producers of agricultural commodities. The results of these studies do not, however, inform us on how CA evolves once consumption moves from the production zones to other points within or outside the boundaries of each country. In a way, the CA studies are silent on the impact of transport costs and appear to underestimate the importance of these costs in resource allocation. In sum, the CA studies fail to make the link between the ICBT and the transport activities. Even more striking in the design of the RTAA activities is the fact that both the ICBT and CA activities put a lot of emphasis on Southern Africa while the transport activity is geared toward East Africa. With this design, it is difficult to identify transport cost are an important constraint to fostering cross-border trade.

Notwithstanding the poor design of the RTAA Project, it represents the most comprehensive activity that provides a broad picture of the direction of trade flows across countries. These flows seem, sometimes, to match perceived CA in the trading countries. One example of this case is trade between Kenya on one hand and Tanzania and Uganda on the other hand. Kenya is assumed to enjoy a CA in manufactured goods, owing to a relatively developed industrial base. Meanwhile, Tanzania and Uganda have a CA in unprocessed agricultural activities. Another illustration of trade flows and assumed CA is South Africa, the dominant industrial power in the Southern African region, and its neighbors.

Notwithstanding the important results generated by the survey-based research, the RTAA Project could be criticized for having focused little attention of livestock products. Yet, these products represent the main traded commodities in certain parts of East and Southern Africa, particularly in the Horn of Africa, and contribute generally to food security. Such injustice was corrected by the USAID-funded BASIS Project.

A trademark of the RTAA activity is its attempt to identify tariff and NTBs to cross-border trade. Thanks to the reform programs initiated by the individual countries, tariffs have come down dramatically in East and Southern Africa. To date, NTBs appear to be more important in putting a break on intraregional trade. Some of the NTBs such as sanitary and phytosanitary measures are purposely put in place to hinder trade. Other barriers including underdeveloped or lack of infrastructure, as well as market failure, are unintentional but impede trade. Based on these barriers, the corrective measures can be categorized into short-, medium-, and long-term endeavors to overcome the existing constraints. Most constraints that can be removed in the short-term result from government-induced distortions such as tariffs and regulatory measures intended to protect inefficiencies. Medium term solutions to address trade constraints are those pertaining to putting in place a system to maintain existing infrastructure or provide information to lower transaction costs. Information systems designed to provide information on market prices, import and export regulations, and axle load limits are in the realm of the medium-term solutions to promote intraregional trade. Finally, investments in infrastructure could be considered long term solutions to trade constraints.

The role of the donor community, particularly USAID, is to help alleviate some of the constraints that hinder intraregional trade. Some of the actions that USAID could undertake entail helping to build capacity by strengthening private sector organizations to enable them to voice their concerns better. The actions also involve helping to streamline and strengthen regional organizations, as well as financing the creation of the enabling environment by designing competition laws and optimum trade taxes, etc. Creating the enabling environment for the private sector also means putting in place a regional market information system and providing information on trade regulations to traders. It also entails informing market participants on policies pertaining to axle load limits, customs procedures and transit.

APPENDICES

APPENDIX A.
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APPENDIX B.
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Mr. Jerome Ntibarekerwa	E. Liusumba

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