A Report on Strategic Options

for a

USAID/REDSO Regional Agricultural Trade Development Program

Presented by:

CARANA Corporation and Abt Associates, Inc.

Task Order 810
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TABLE OF CONTENTS

USAID

PREFACE

As authors of this report, we would like to express our deepest appreciation for the collaboration given and information shared by the many individuals and organizations interviewed in the course of this work. Since the list is long, it is presented as an annex.

We would especially like to thank Mr. Mulinge Mukumbu (USAID/REDSO Project Manager), Dr. Diana Putman (Director of the Food Security Office, USAID/REDSO), and Mr. Eric Johnson (Food Security Office) for the support, substantive input and guidance they provided as the work progressed.

The observations and opinions expressed in this document are of the authors alone, and do not necessarily reflect those of the people interviewed or of the United States Agency for International Development.

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LIST OF ACRONYMS

ACIS	Advanced Cargo Information System
AFB	African Development Bank
ASARECA	Association for Support of Agricultural Research in East and Southern Africa
ATRIP	USAID's Africa Trade and Investment Program
AU	African Union
CA	Comparative advantage
CBI	Cross-Border Initiative
CET	Common External Tariff
CIAT	Center for Investigation into Tropical Agriculture
COMESA	Common Market for East and Southern Africa
COT	Costs of transport
DA	(U.S.) Development Assistance (Budget)
DAC	(OECD) Development Assistance Committee
DFID	(UK) Department for International Development
DRC	Democratic Republic of Congo
EAGER	Equity and Growth through Economic Research
EAC	Commission for East African Cooperation
EA-SSI	East African Sub-regional Initiative for the Advancement of Women
EAEN	East African Enterprise Network
ECA	Economic Cooperation for Africa
ESABO	East and Southern Africa Business Organisation
ESF	Economic Support Funds
FAO	Food and Agricultural Organization
FEWS	Famine Early Warning System
FTA	Free Trade Area
GDA	Global Development Alliance
GDP	Gross domestic product
GHAI	Greater Horn of Africa Initiative
GIEWS	Global Insecurity Early Warning System
GNP	Gross national product
GSP	Generalized System of Preferences
HASP	Horn of Africa Support Program
HIPC	Highly indebted poor country
ICBT	Informal cross-border trade
IBAR	Inter-governmental Bureau for Animal Research
ICIPE	International Center for Insect Physiology and Entomology
ICRISAT	International Center for Research in the Semi-arid Tropics
IFPRI	International Food Policy Research Institute
IGAD	Inter-Governmental Authority for Development
IMF	International Monetary Fund

IITA	International Institute for Tropical Agriculture
IR	(USAID) Intermediate Results indicator
ISA	(USAID) Initiative for Southern Africa
LDC	Less developed country
LSGA	(USAID) Limited Scope Grant Agreement
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental organization
NTAE	Non-traditional agricultural export
NTB	Non-tariff trade barrier
OAU	Organization for African Unity
ODA	Overseas Development Assistance
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
RCSA	(USAID) Regional Center for Southern Africa
REDSO	(USAID) Regional Economic Development Services Office
RMI	Road Maintenance Initiative
RSA	Republic of South Africa
RTAA	Regional Trade Analytical Agenda
S&PS	Sanitary and phytosanitary
SACU	Southern Africa Customs Union
SADC	Southern African Development Community
SAGA	(USAID) Strategies and Analyses for Growth Program
SARRNET	South African Root Crops Network
SO	Strategic objective
SSATP	Sub-Saharan Africa Transport Policy Program
TRADE	(USAID) Trade for African Development Program
UNCTAD	United Nations Commission on Trade and Development
UNECA	United Nations Commision for Africa
USAID	United States Agency for International Development
VAT	Value-Added Tax
WAEN	West African Enterprise Network
WFP	World Food Programme
WTO	World Trade Organization

Section I

Background

A. Origins of the Task Order

In June of 2001, the Food Security Office of USAID/REDSO/ESA issued a request for proposals for a Task Order intended to result in the "Second Analytical Piece for the Design of REDSO's New Trade Development Program". The RFP was issued to a limited number of holders of previously signed Indefinite Quantity Contracts under the Global Bureau's Trade & Investment (GBTI) Activity. In mid-September of 2001 a Task Order was signed with CARANA Corporation, which in turn issued a sub-task order to Abt Associates, Inc. so that the two firms together could carry out the scope of work.

The contractor team consisted of: Byron Battle from CARANA Corp. serving as project coordinator, John Lamb from Abt Associates, serving as international trade specialist, and Stanley Heri from Abt Associates, serving as private agricultural associations specialist.

While the original intent was to begin work immediately, the events of September 11th caused a delay in execution, mutually agreed to by all parties. Although the effective date of the task order was September 28th, initial travel to Kenya to begin work was not possible until the second week of October. For that reason, and also to ensure that sufficient vetting of alternative approaches occurred among stakeholders in the region, the period of performance for this work order was extended through to February, 2002.

B. Summary of the Scope of Work

As explained in detail in the full Statement of Work presented in Annex One, the principal objectives of this research and analysis were to:

> Identify current key constraints to regional trade development within the East and Southern Africa Region;
> Identify approaches and methodologies used by REDSO and other development partners in past trade development interventions to address these constraints; and
> Suggest options for a new REDSO trade development strategy incorporating best practices and lessons learned from past experiences.

While the general intent remained intact, during execution it was mutually agreed by the Contractor and Cognizant Technical Officer at REDSO that the consulting team should limit its role with respect to the third objective to that of defining, developing and making recommendations with respect to strategic options. REDSO's Food Security team would make the final selection and design the resulting project, taking into account the results of a Stakeholder Workshop to be held in late January.

In formulating options the Consultants were to be guided by three critical issues: (1) the policy and institutional environment for trade; (2) the private sector's capacity to respond to policy and institutional changes; and (3) the region's capacity to efficiently deliver trade-facilitating services.

C. Methodology

In carrying out the prescribed scope of work, the Consultants followed a six-step sequence:

First, a comprehensive review of relevant documents was carried out, using the many sources listed in Annex Two. These not only described the projects and activities specifically mentioned in the Statement of Work, but also included prominent research relating to economic growth, poverty alleviation, food security, trade and agricultural development. The literature review process occurred during the first two calendar months, interspersed with many of the key informant interviews described below.

Second, personal interviews were conducted with a wide range of key informants--over 50 in all. As should be evident from Annex Three, the list of interviewees included a representative cross-section of people, distinct in terms of development role (economic actor or not, with direct or indirect involvement in agricultural trade), type of organization, legal character (public versus private, for-profit or not) and work location. Interviews were carried out in Kenya, Uganda, Zambia, Zimbabwe, Botswana and Washington, DC. IGAD officials also traveled from Djibouti to Kenya to meet with the consultants.

Third, interim findings were summarized and presented on three separate occasions. The first occurred in Nairobi on November 16th. This took the form of a presentation made before an audience consisting of core staff from USAID/REDSO, selected USAID/Kenya staff involved in agricultural trade, the USDA/FAS Agricultural Attaché, and certain other interested parties. The second occurred in Gaborone on November 30th, again involving a presentation made before the Mission Director and the economic growth and agricultural development team of USAID/RCSA. The last occasion was December 6th in Nairobi, when the team held a meeting with members of the REDSO Food Security Team to present preliminary strategic options.

Fourth, a Preliminary Report on Strategic Options was prepared over the end-of-year holiday period, with the intent of formalizing results obtained to date and soliciting feedback from REDSO prior to presenting those findings to other interested people and institutions.

Fifth, a Stakeholder Workshop was held between January 30th and February 1st in Nairobi. This had two goals: (1) to obtain reactions to the analysis and definition of strategic options and (2) to achieve a greater sense of participation and commitment to the preferred strategy on the part of key informants and stakeholders.

Sixth, in the weeks that followed the Stakeholder Workshop, the Consulting Team prepared and presented this Final Report on Strategic Options for a Regional Agricultural Trade Strategy.

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Section II

Introduction

USAID/REDSO's decision to design and implement a new regional agricultural trade program comes at a critical moment--for the world economic order, for trade in general, for agriculture's participation in trade, and for African development. In an interconnected world, the strategy underlying any agricultural trade project cannot be separated from the broader international situation, which directly affects both investment decisions and trade performance.

A. The World Context

1. Economic Growth Trends

The year 2000 saw a 4.5% expansion of merchandise output, which was the best performance in a decade. By the end of the twentieth century, economic growth had accelerated in all major regions of the world. As the second millennium began, the prospects for economic growth seemed favorable. This was despite continuing problems in two (Japan and Germany) of the three largest industrialized economies and the fact that a major downturn had started in the middle of 2000 in the United States as well.

Yet in retrospect it has become clear that the global economy was in a delicate position by the end of 2000 and beginning of 2001, even before the events of September 11th. According to the World Bank's "Global Economic Prospects 2002" (GEP 2002), the sudden decline in U.S. financial markets that occurred in mid-2000 marked the end of a "worldwide bubble in equity values" and resulted in over-capacity in global high-tech sectors. That led to a slowing down of the United States economy, a precipitous fall in investment demand and a decline of consumer confidence. The latter spread quickly to Europe, first manifesting itself in equity markets, but soon affecting business and consumer demand as well. The synchronicity of the downturn in all major economies, which had not been seen since the Seventies, was a source of great concern for analysts and policy-makers. By mid-2000, global recession seemed possible.

Then the World Trade Center and Pentagon attacks greatly increased the chances of a severe global slowdown. Most observers assumed that businesses and consumers alike would tend to hold back on investment and consumption, at least in the short run. The possibility of additional attacks increased the general level of risk as well.

Given this situation, the GEP 2002 Report forecast global GDP growth at just 1.3% for 2001, 1.6% for 2002 and 3.9% for 2003, as compared with actual growth levels of 3.6% in 1999 and 4.7% in 2000. In the second chapter of its "Interim World Economic Outlook" (published late in 2001), entitled "How Has September 11 Affected the World Economy?", the IMF reduced its projection for 2001 growth in world output from 2.6% to 2.4%, and for 2002 from 3.5% to the same 2.4%. During the last quarter of 2001, most private growth forecasts for 2002 for the major economies were revised downward as well. As of this writing there are promising signs of recovery, or at least stabilization, yet the fact that the dispersion in expert forecasts has increased significantly (IMF, 2001) indicates persistent uncertainty about the world's economic future.

While September 11 and its after-effects are a serious concern for developing countries, the extent of the ripple effect on their economies is not yet clear. On the whole, LDCs had not been performing badly during the preceding ten years. According to WTO's "Statistics on Globalization 2001", between 1990 and 2000, economic growth for LDCs in the aggregate averaged 4.5%, while the world as a whole averaged just 2.8%. The economies of many LDCs did especially well in the year 2000, averaging 5.8% growth (IMF, 2001). That was their highest rate in a decade. Moreover, 73 of 95 developing countries tracked by the UN Secretariat showed increases in per capita GDP in 2000, as compared with 58 in 1999. In 2001, 31 developing countries managed at least 3% growth in per capita GDP, as opposed to 23 in 1999. The latest IMF Interim Economic Report projects a 4.0% growth in real GDP for developing countries in 2001, and then 4.4% in the year 2002.

2. Trends in World Trade

In the year 2000, world trade growth hit a record level--13.3% according to the World Bank, 12.4% according to the IMF--which nearly equaled the best rate seen in the last half-century. Merchandise value was up 12.5% (largely due to volume gains rather than price increases), while services value was up 6%. The IMF reported just 0.2% growth in merchandise trade for 2001, and projected 1.7% growth for 2002. Declining terms of trade, coupled with a significant reduction in demand that started even before September 11, are viewed as the main causes of reduced growth rates.

LDCs were greatly affected because they suddenly faced a 10% drop in demand growth for their exports. According to the World Bank (GEP 2002), "*The phased contraction of U.S. and then European import demand, in combination with the reversal of incipient recovery in Japan, heralded an unprecedented deceleration of world trade in 2001 that has adversely affected developing countries*".

WTO trade statistics reveal that developing countries accounted for one-third of all world trade at the end of the century, up from one-fifth in the 1970's. Over the last ten years LDCs have consistently outperformed industrialized countries in terms of export growth rates, averaging almost 10% per year, as compared with 5% for the industrialized countries. The year 2000 was an extraordinary one for merchandise exports from developing countries, as they reached a 19.2% growth rate, only to plummet back to 2 % in 2001. The WTO reports that developing countries experienced a 3.4% growth in trade in 2001, and forecasts 4.5% for 2002.

Most of the gains in LDC merchandise trade have come from manufactured products rather than agricultural. While developing country exports of manufactured and agricultural goods were both about $20 billion in 1970, by 1999 the former had reached more than $1,300 billion, with agricultural exports rising to just $200 billion. This occurred for several reasons. First, products produced by the poor countries actually face higher levels of protection, with average tariff levels twice as high as products produced by the non-poor. Secondly, many LDCs (especially in South and East Asia and in Latin America) have diversified away from commodities and into manufactures, some even into high-tech products. As a result, developing countries are now linked more than ever to global trade cycles in manufacturing, which means more pronounced swings in exports when downturns occur in the main developed economies. Thirdly, the unit value of agricultural exports is generally lower than manufactures, and especially so for higher-tech merchandise.

Over the last decade, the difference in relative growth rates between different regions of the world has caused Africa's share of world merchandise trade to fall gradually but consistently, from just over 3% in 1990 to about 2.3% in 2000. In other words, Africa is losing market share in global markets.

Africa did register a 27% increase (31% if South Africa is excluded) in the value of merchandise exports in the year 2000, and this was more than double the growth rate for the world as a whole as well as more than double the growth rate for Africa's imports. However, there were large differences among African countries due to the composition of their exports. Major fuel exporting countries registered much larger increases in both exports and imports than the others. About 20 African countries reported absolute declines in both exports and imports.

As far as current trade performance is concerned, major institutions all report that world trade growth fell to just 1% in 2001. While the Bank still projects 4.0% growth in world trade in 2002, and the IMF 2.1%, both of them recognize major risks and uncertainty. For 2003, the Bank forecasts a rebound to 10.2%, implying considerable optimism over the mid-term.

3. Trends in Agricultural Trade

According to the WTO, between 1990 and 2000, world exports of agricultural merchandise rose an average of 3% annually, to a level of $558 billion. Of that total $442 billion (79%) represented food products, and $116 billion (21%) raw agricultural materials. The value of raw materials showed much more volatility from year to year than food products.

At 2%, agricultural products in the year 2000 showed the least worldwide growth in trade among all product categories. World trade in the food segment showed zero growth in value. Due to food's higher unit prices, this stagnation offset a 10% spike in the value of agricultural raw materials.

Although Western Europe has long been the main target market for African agricultural products, from 1998 to 2000 African products lost almost one full point in EU market share, and between 1990 and 2000 the percentage of African exports sent to that market fell from 61.1% to 56% in value terms. Meanwhile Asia grew in importance as a target market, from 15.1% to 18.2% in value terms. During the same period the percentage of agricultural merchandise export value staying within Africa fell from 11.8% to 9.7%.

For a given agricultural commodity, both volume and value are important indicators of trends. However, in aggregate analyses of agricultural trade trends it is not possible to meaningfully combine units of measure for all types of products, so such analyses are usually done based on value rather than volume.

Value, of course, is the product of both volume and price. That being the case, it is crucial first to consider historical price trends. Agricultural commodity prices have been on a long-term downward trend for decades, but the trend has been especially evident in recent years. According to the Primary Commodity Price Series generated annually by the IMF, indices (1990=100) for agriculture in general fell to 86.4 in the year 2001, beverages to 74.6, food to 86.2 and agricultural raw materials to 96.7. Table 1 below reveals in detail the dramatic decline in primary commodity prices.

Table 1
PRIMARY COMMODITY PRICE INDICES
IN US DOLLAR TERMS[1]
Source: IMF

Year/ quarter	Non-fuel primary commodities					Petroleum
	All	Food	Beverages	Agricultural raw materials	Metals	
1995	118.1	113.6	151.1	131.3	100.2	74.8
1996	116.7	127.5	124.9	127.7	88.2	88.6
1997	113.0	114.0	165.5	119.0	91.5	83.9
1998	96.4	99.7	140.3	99.5	[illegible]	56.9
1999	89.8	84.1	110.5	102.2	75.5	78.3
2000	91.4	83.7	92.2	104.2	84.6	122.8
2001	86.4	86.2	74.6	96.7	76.6	[illegible]

[1] 1990 = 100. Based on 1987-89 world export earnings, out of a possible 100, food was given a weight of 32.9, beverages 6.8, agricultural raw materials 32.3

According to FAO's "State of Food and Agriculture 2001", while some of the downturn in agricultural prices can be explained by commodity-specific factors, the continuing weakness was generally attributable to the inability of production to adjust to the 1998-99 slump in demand. GEP 2002 noted another explanatory factor: currency devaluations relative to the dollar that occurred in major agricultural commodity exporting countries like Brazil, Thailand and Indonesia.

Downward adjustment is typically slow for crops such as tropical beverages (which are largely derived from perennial crops whose pulps can be stored across seasons) and for sugar cane (which is protected by numerous subsidies and protectionist measures). In the case of cereals and oilseeds, improved weather conditions, larger harvests and stocks, and the financial crises in both Asia and Russia all caused downward pressure in the late 90's.

For commodities of particular interest to developing countries, the situation has been critical in recent years, with just a few products showing modest recovery in the year 2001. Witness:

- According to the ICO, **coffee** prices (*average of Cote d'Ivoire Grade II and Uganda standard, prompt shipment, ex-dock New York*) for "robusta" coffee averaged 67.7 US cents/pound in 1999, 42.2 cents/lb in 2000, and 27.3 cents/lb in 2001. Fourth quarter prices averaged just 22.0 cents/lb. Prices for "other milds" fell from $1.017 to $0.85 to $0.61/pound during the same three-year period, and descended to just $0.57/pound in the last quarter of 2001.

- According to Cotton Outlook in Liverpool, **cotton** prices (*Middling 1-3/32 inch staple, Cotlook "A" Index, average of the cheapest five of sixteen styles, c.i.f. North Europe*) were reported at 53.1 US cents/pound for 1999, 59.00 cents for 2000, and 48.09 cents for 2001. In the last quarter of 2001, prices averaged just 39.30 cents/lb.

- According to USDA's Grain and Feed Market News, **maize** prices (*US No. 2, Yellow, prompt shipment, fob U.S. Gulf of Mexico ports*) averaged US$117.24/MT in '97, $101.95 in '98, $91.70 in '99, $88.38 in 2000, and $89.55 in 2001. Fourth quarter 2001 prices averaged $89.

- According to the ICCO, **cocoa bean** prices (*average of the three nearest active futures trading months in the New York Cocoa Exchange at noon and the London Terminal market at closing, c.i.f. U.S. and European ports*) averaged $1135/MT in 1999, $904 in 2000 (with a three-decade low in February), and $1088 in 2001. There was a rebound in the last quarter of 2001, up to US$1218/MT.

As indicated in Table 2 below, the overall export value of the most important primary agricultural commodities dropped sharply for the second year in a row in 1999, falling by 6 percent to $203.7 billion, due not only to low prices but flat trading volumes. FAO projections for the year 2000 suggested a continuation of the decline, down to $201.7 billion, mainly because of expected global economic growth, which would normally stimulate demand for some commodities. While the expected growth did occur, the fact that prices for many agricultural commodities stayed near or below the very low 1999 levels throughout 2000 and into 2001 continued to depress total export value.

Table 2

VALUE OF GLOBAL EXPORTS OF MAJOR AGRICULTURAL PRODUCTS

	1998	1999	2000	1998-1999	1999-2000
	(Billion $)			*(Percentage change)*	
Beverage crops	18.0	12.4	11.2	-31.1	-9.7
Cocoa	2.8	2.2	1.7	-21.4	-22.7
Coffee	11.0	7.4	6.6	-32.7	-10.8
Tea	2.9	2.8	2.9	-3.4	3.6
Sugar	10.2	7.6	9.2	-25.5	21.1
Bananas	3.5	3.4	3.0	-2.9	-11.8
Citrus	5.0	4.9	4.0	-2.0	-18.4
Cereals	39.9	36.0	35.8	-9.8	-0.6
Meat	41.0	47.5	48.9	15.9	2.9
Milk and milk products	26.7	24.6	25.2	-7.9	2.4
Oils, oilseeds and meals	54.9	51.8	46.9	-5.6	-9.5
Agricultural raw materials	17.5	15.5	17.5	-11.4	12.9
Cotton	8.3	7.5	8.9	-9.6	18.7
Jute	0.6	0.4	0.4	-33.0	0.0
Hard fibres	0.4	0.3	0.3	-25.0	0.0
Natural rubber	3.6	3.0	3.4	-16.7	13.3
Hides and skins	4.6	4.3	4.5	-6.5	4.7
TOTAL	216.7	203.7	201.7	-6.0	-1.0

SOURCE: FAOSTAT trade data. (1998 data are final; 1999 and 2000 are preliminary)

B. The Challenge of Economic Growth, Agricultural Trade and Food Security in Sub-Saharan Africa

1. Economic Growth Trends

Except for 1992, Sub-Saharan Africa experienced positive growth in real GDP throughout the 1990's. Between 1993 and 1996 the region showed impressive gains from year-to-year, peaking at more than 5%, which is widely seen as the level required to prevent an increase in the number of poor. Largely because of the world price decline in both primary commodities and manufactures that characterized the last half of the decade, the upward trend in SSA output was reversed between 1997 and 1999, at which point a trough was reached at just over 2% annual growth. While SSA seemed to bounce back in 2000, the mid-2000 downtown in the G-3 countries signaled the beginning of a worldwide recession that was transmitted to SSA through a further reduction in demand for its export commodities, coupled with continuing low prices. As a result, SSA economic growth dropped from 3% in 2000 to 2.7% in 2001.

Since SSA experienced 2.4% population growth throughout the 1990's, the net annual increase in real per capita GDP was rarely enough to change average individual welfare. As noted in the USAID/AFR Congressional Budget Justification for 2002, at the present time African GNP per capita is about $492/year, and in 24 African countries it is less than $350/year. According to the World Bank's "World Development Report 2001", the number of people living on less than $1/day in SSA rose from 217.2 million to 290.9 million between 1987 and 1998, with virtually no reduction in the 46% share of population. During the same period, the SSA share of the world's poor (<$1/day) rose from 18.4% to 24.3%. The World Bank's "African Development Indicators 2001" asserts that about 300 million Africans live on barely 65 cents per day.

Historical trends notwithstanding, some important forecasts are reasonably optimistic about overall economic growth in SSA. For examples, GEP 2002 projects a recovery of GDP to 3.6% in 2003, and 3.7% annually after that through to 2010. Assuming population growth of 2.3% in 2003 and then 2.2% per year after that, GDP growth for SSA excluding South Africa is expected to reach 4.0% in 2003 and 4.2% thereafter. GDP per capita would rise 1.6% in 2003 and 1.5% per year until 2010. While still not enough, those figures would represent forward progress as compared with the 1990's.

2. Trade Trends

After a flat year in 1999, SSA merchandise exports jumped 8.8% in volume in the year 2000, then fell back to 3.4% growth in 2001. The World Bank projects 2.9% growth in 2002 and 6.4% in 2003.

Of particular interest to REDSO is the trade situation of the 21 Member States of COMESA, because COMESA has long been one of REDSO' s main institutional partners, and is likely to remain so. Table 3 below summarizes COMESA exports in the Nineties.

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Table 3

TOTAL EXPORTS OF COMESA COUNTRIES
(FOB Value, US$ Millions)

	Member State	1991	1992	1993	1994	1995	1996	1997	1998*
1	Angola	3,097.00	3,526.00	2,854.00	2,859.00	3,294.00	4,472.00	4,157.70	3,496.00
2	Burundi	92.00	74.00	62.00	119.00	104.00	37.00	87.00	106.70
3	Comoros	28.00	27.00	22.00	18.00	11.00	14.00	11.00	12.00
4	DRCongo	1,600.00	1,486.00	1,012.00	1,273.00	1,535.00	1,470.00	1,043.10	998.20
5	Djibouti	95.00	75.00	109.00	118.00	107.00	135.00	143.00	149.14
6	Egypt	3,659.00	3,050.00	3,110.00	3,448.00	3,441.00	3,534.00	3,908.00	4,936.70
7	Eritrea	-	15.00	36.00	64.00	81.00	89.00	115.50	129.67
8	Ethiopia	167.00	187.00	239.00	304.00	472.00	460.00	551.10	585.40
9	Kenya	1,014.00	1,337.00	1,275.00	1,677.00	1,933.00	2,141.00	1,947.80	2,385.50
10	Madagascar	305.00	268.00	253.00	318.00	342.00	624.00	625.60	678.60
11	Malawi	482.00	509.00	416.00	474.00	481.00	573.00	674.60	684.20
12	Mauritius	1,195.00	1,301.00	1,303.00	1,342.00	1,539.00	1,800.00	1,595.30	1,701.07
13	Namibia	415.00	280.00	289.00	567.00	498.00	405.00	421.00	364.33
14	Rwanda	91.00	196.00	97.00	55.00	54.00	155.00	100.20	82.80
15	Seychelles	135.00	124.00	74.00	73.00	92.00	75.00	169.00	189.00
16	Sudan	366.00	321.00	349.00	454.00	530.00	487.00	517.70	521.10
17	Swaziland	594.00	639.00	685.00	783.00	958.00	887.00	1,173.54	1,254.90
18	Tanzania	413.00	474.00	469.00	525.00	685.00	760.00	715.00	651.00
19	Uganda	200.00	179.00	179.00	424.00	461.00	604.00	598.10	414.20
20	Zambia	1,077.00	752.00	891.00	758.00	986.00	1,039.00	1,177.50	1,262.50
21	Zimbabwe	1,288.00	1,257.00	1,327.00	1,971.00	2,024.00	2,273.00	2,559.60	2,531.30
	Total	**16,313.00**	**16,077.00**	**15,051.00**	**17,624.00**	**19,628.00**	**22,034.00**	**22,291.34**	**23,134.31**

SOURCE: COMESA Website, data from IMF Direction of Trade Statistics data *Provisional

For the 8-year period shown in Table 3 above, the data reveals 42% overall growth, equivalent to about 4.6% per year. Sixteen of the twenty-one countries show forward progress, the rest not. Egypt remained in the lead throughout the period, eclipsing Angola. Kenya, Zimbabwe and Swaziland had the fastest growth rates.

With respect to imports, the data in Table 4 below shows an 89% growth in total import value over an eight-year period, equivalent to almost 10% per year. Egypt had the highest starting base, and then experienced the most pronounced growth (152%) as well.

Various COMESA countries (Uganda, Djibouti, Eritrea, Ethiopia, Seychelles, Madagascar) experienced a doubling of import value, but from a much smaller base.

Table 4
TOTAL IMPORTS OF COMESA COUNTRIES
(FOB Value, US$ Millions)

	Member State	1991	1992	1993	1994	1995	1996	1997	1998*
1	Angola	1,847.00	2,632.00	1,432.00	1,432.00	1,854.00	2,039.00	2,283.00	2,288.70
2	Burundi	249.00	225.00	197.00	233.00	233.00	125.00	122.80	196.50
3	Comoros	119.00	117.00	106.00	113.00	157.00	164.00	164.00	174.29
4	D.R. Congo	1,029.00	810.00	776.00	946.00	1,317.00	1,330.00	1,292.40	1,238.90
5	Djibouti	214.00	476.00	434.00	374.00	419.00	399.00	387.00	436.14
6	Egypt	7,862.00	8,291.00	8,188.00	9,452.00	11,739.00	13,019.00	13,168.00	19,862.00
7	Eritrea	-	331.00	312.00	396.00	404.00	499.00	587.50	680.33
8	Ethiopia	472.00	1,265.00	1,149.00	1,121.00	1,379.00	1,485.00	1,409.20	1,371.10
9	Kenya	2,178.00	1,835.00	1,744.00	2,785.00	3,688.00	3,690.00	3,246.50	3,577.90
10	Madagascar	428.00	453.00	441.00	443.00	525.00	665.00	749.30	875.20
11	Malawi	618.00	727.00	510.00	576.00	615.00	736.00	783.30	889.60
12	Mauritius	1,558.00	1,624.00	1,718.00	1,924.00	1,976.00	2,295.00	2,264.30	2,216.70
13	Namibia	143.00	164.00	143.00	147.00	189.00	196.00	205.00	212.67
14	Rwanda	306.00	288.00	271.00	238.00	283.00	378.00	367.30	328.10
15	Seychelles	172.00	192.00	238.00	206.00	241.00	348.00	296.00	350.00
16	Sudan	1,401.00	1,299.00	1,176.00	1,145.00	1,289.00	1,350.00	1,499.10	2,025.30
17	Swaziland	635.00	780.00	789.00	861.00	989.00	964.00	1,041.00	1,050.00
18	Tanzania	1,533.00	1,510.00	1,497.00	1,505.00	1,619.00	1,394.00	1,962.00	2,124.30
19	Uganda	402.00	399.00	457.00	540.00	745.00	723.00	824.70	867.00
20	Zambia	811.00	837.00	702.00	455.00	782.00	834.00	1,069.70	1,176.60
21	Zimbabwe	1,857.00	2,003.00	1,649.00	2,037.00	2,464.00	2,595.00	2,796.10	3,034.50
	Total	**23,834.00**	**26,258.00**	**23,929.00**	**26,929.00**	**32,907.00**	**35,228.00**	**36,518.20**	**44,975.83**

SOURCE: COMESA Website, based on data from IMF Direction of Trade Statistics *Provisional

Tables 3 and 4 together indicate that for overall merchandise trade, the COMESA countries experienced a negative trade balance throughout the 1990s. Only Angola, Namibia, Swaziland, and Zambia experienced a positive trade balance. The percentage share of agricultural exports in total merchandise exports also dropped steadily over time (from about 35% to about 21%),as manufactured exports rose. On the other hand, the percentage share of agricultural imports in total merchandise imports remained fairly steady in the 15-18% range.

As Table 5 below indicates, intra-COMESA exports rose 158% in value over this eight-year period. (It is likely that these figures substantially underestimate the real value, since so much informal cross-border trade is occurring). Officially at least, and probably in reality, Kenya, Zimbabwe and Zambia were the leading intra-COMESA exporters both at the beginning and ending years. A number of other countries reported a doubling or tripling of exports, but from a relatively small base.

Table 5

INTRA-COMESA EXPORTS, BY COUNTRY OF ORIGIN
(FOB Value, US$ Millions)

	Member State	1991	1992	1993	1994	1995	1996	1997	1998*
1	Angola	-	-	-	-	-	-	-	-
2	Burundi	11	16	17	14	13	8	-	7
3	Comoros	-	-	-	-	-	-	-	-
4	Congo (D.R)	18	14	10	8	14	23	20	33
5	Djibouti	22	24	30	34	42	49	54	60
6	Egypt	37	135	42	42	43	39	40	42
7	Eritrea	-	-	-	-	-	-	-	-
8	Ethiopia	8	8	12	15	38	31	36	33
9	Kenya	250	293	427	503	626	687	745	817
10	Madagascar	17	18	2	14	28	36	42	48
11	Malawi	25	12	16	27	26	44	46	48
12	Mauritius	30	28	17	46	57	79	85	100
13	Namibia	1	2	3	8	11	13	15	16
14	Rwanda	11	1	-	-	2	1	2	1
15	Seychelles	2	2	-	-	-	1	1	1
16	Sudan	3	24	12	2	3	21	23	36
17	Swaziland	22	36	21	18	23	34	40	46
18	Tanzania	45	75	69	75	93	109	119	129
19	Uganda	5	9	10	12	18	17	15	19
20	Zambia	123	69	47	82	107	180	224	228
21	Zimbabwe	182	145	158	284	316	357	381	436
	Total	**812**	**911**	**893**	**1,184**	**1,460**	**1,729**	**1,888**	**2,100**

SOURCE: COMESA Website, based on IMF Direction of Trade Statistics * Provisional

3. Agricultural Trade Performance in Sub-Saharan Africa

Figure 6 portrays SSA agricultural export and import trade trends over the most recent 15-year period for which data was available.

Figure 6
SUB-SAHARAN AFRICA'S AGRICULTURAL TRADE

(Source: FAO, The State of Food and Agriculture, 2001)

As the above chart shows, SSA exports of agricultural products began the decade of the Nineties in 1990 at a level of about $9B and ended it in 1999 with at about $10.7B. The worst year occurred in 1992, when exports dipped below $8B. The best year was in 1998 when exports exceeded $12 billion in value. In terms of value, there was a positive trade balance in every year except 1992.

As Figure 7 below indicates, a three-year moving average for the last decade reveals a gradual decline in export **value** between 1990 and 1993, a marked recovery from 1993 to 1996, relative stagnation in growth between 1996 and 1998, then a marked decline in 1999. Moving averages for export **quantity** reveal a strong upward trend in the first half of the Nineties, followed by relative stagnation in the last half.

Figure 7
INDICES OF SUB-SAHARAN AFRICA'S AGRICULTURAL TRADE

(Source: FAO, The State of Food and Agriculture, 2001)

As Figure 8 below indicates, using 1989-91 as the index period, SSA experienced a strong decline in net barter and income terms of trade between 1986 and 1992-93, after which both recovered. Income terms of trade recovered more quickly than barter terms of trade. In neither case had the region reached 1986 levels by the end of 1998.

Figure 8
NET BARTER AND INCOME AGRICULTURAL TERMS OF TRADE

(Source: FAO, The State of Food and Agriculture, 2001)

The SSA region is more dependent on agricultural trade than any other region of the world. Of the 53 countries in the world for which exports of agricultural, fishery and forest products are equivalent to at least 20 percent of their total exports, 27 can be found in Sub-Saharan Africa.

As FAO correctly notes in its State of Food and Agriculture 2000 report, many SSA countries rely on a just few agricultural commodities to generate foreign exchange, so they are very vulnerable to adverse fluctuations in agricultural terms of trade, which were particularly severe in 1999 and 2000. Coffee, for example, generates 60% of Ethiopia's and 70% of Burundi's total exports of goods and services. These two countries, as well as Uganda, saw their terms of trade fall by 30 percent or more in the year 2000.

4. Trends in Food Security/Insecurity

According to the U.S. Government's Action Plan on Food Security (1999), "food security occurs when all people, at all times, have physical and economic access to sufficient food that meets their dietary needs for a productive and happy life".

According to "The State of Food Insecurity in the World" (FAO 2000), if a threshold of 1800 kilocalories/person/day is applied, about 826 million people are undernourished, of which 792 million reside in the developing world.

During the 1996-98 benchmark period, about 186 million of the undernourished persons lived in Sub-Saharan Africa.

In terms of absolute numbers, within the SSA region East Africa had the most undernourished people, followed in order by Central, Southern and West Africa. In terms of relative percentages, Central Africa had the highest at about 50%, followed by East and Southern Africa with about 42% each, and then West Africa with about 16%.

FAO also reports that Sub-Saharan Africa is the most food insecure region on the planet, because in almost half the countries in this region the undernourished lack on the average more than 300 kilocalories per person per day. (Asia and the Pacific have more chronically hungry people, but on the average its hungry are slightly better off in terms of caloric intake).

According to IFPRI's "2020 Global Vision" (August, 2001), Sub-Saharan Africa is also the only region of the world in which both the number and percentage of undernourished children have been rising consistently in recent years. One-third of all SSA children go to bed hungry.

What are the prospects for improvement? In a recent AFR/OSD presentation, a comparison between projections to the year 2015 of Africa's rising share of the world's hungry population revealed a 21% forecast made by AIRD, an FAO forecast of 32%, and forecast of 73% by USDA. In the same vein, in IFPRI's baseline scenario for the year 2020, the analysts foresee an increase in malnourished children in SSA from 33 to 39%, even assuming a healthy increase in crop production over the next two decades via intensification. Even the most optimistic IFPRI scenario projects that 22% of SSA children will remain undernourished, and the most pessimistic scenario projects 49%.

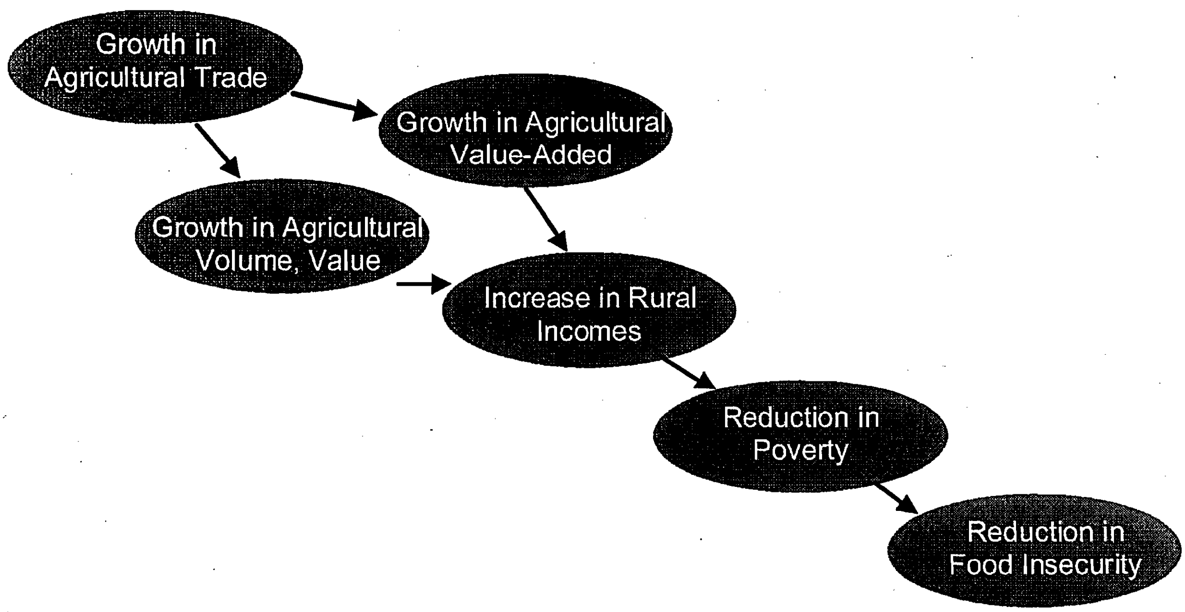
Section III

Conceptual Foundations for a Regional Agricultural Trade Program

The central question facing REDSO as it begins its new five-year period is:

➢ **How to devise a regional agricultural trade strategy that will make a meaningful contribution to food security in the East and Southern Africa Region?**

Implicit in that question is an assumption that enhanced agricultural trade will reduce food insecurity. The underlying chain of logic can be depicted in this manner.



In recent years, development thinkers have generally concluded that food insecurity in the world is less a problem of overall availability than of inability of certain people to obtain food, and that inability is closely associated with poverty. Since poverty in Africa is most prevalent in rural areas, it is crucial to raise rural incomes. Rural income comes from both on-farm and off-farm activities. In various research and conceptual papers, Mellor and others have shown that agriculture is the principle driver not only of on-farm income and employment, but also of non-farm rural income and employment. This is true because income derived from agriculture tends to get spent locally, causing a multiplier effect. Increased income in agriculture is obtained when output is expanded and/or when value is added to the products sold. In relatively small economies with limited purchasing power, expansion of volume, increases in price and increases in value-added are all difficult to obtain. Agricultural trade fuels the whole process.

A. The Importance of Agricultural Exports to Trade

According to WTO figures, exports of agricultural products have risen fairly steadily over the last half-century, but at a slower rate than manufactured products. Between 1990 and 2000, the value of agricultural product exports rose 35%, while that of manufactures rose 94%. In terms of volume, agricultural products increased 54%, while manufactures increased 110%.

Agriculture's share in the value of the world's merchandise exports fell from 12.2% in 1990 to 9.0% in the year 2000. In the decade of the Nineties agriculture lost 3.2 points in share of market --almost one-quarter of its prior position--as compared with other sectors.

Africa's share by value of world exports in agricultural products was less than 3.3% in 2000, as compared with 3.9% in 1990. In other words, in a single decade Africa lost 0.6% in world market share in agricultural exports. (While the percentage may seem small, the value and impact have both been substantial).

For its main market, which is Western Europe, Africa's participation fell from 2.4% to 1.9%, a reduction in market share of almost one-fifth in just ten years. For a region that has historical and cultural ties to Western Europe, as well as some advantage against the rest of the developing world in terms of proximity, such a rapid decline is alarming indeed.

For Africa as a whole, the share of agricultural products in its total merchandise exports for the year 2000 was 12.9%, while for primary products it was 17.7%. Both were significantly lower than in 1990. While some of the decrease reflects the positive effects of diversification into manufactured or higher value-products, much of it was also due to declining volume and terms of trade in agricultural exports. Again the status of agriculture was diminished.

On the other hand, for some Sub-Saharan countries the agricultural products share has always been much higher, and actually increased in recent years. In the case of Kenya, for example, agriculture's share of export value rose from 54.2% to 61.2% between 1990 and 2000. For Zimbabwe, it also rose, from 43.7% to 60.5%. For Sudan it reached 74.8% in the year 2000.

In conclusion, while the relative importance of agricultural exports may be falling for many of the world's economies, it remains crucial for many Sub-Saharan countries, especially those that have no oil or gas resources.

B. The Contribution of Agricultural Trade to Food Security

USAID

The literature of development stands food security on three pillars: availability, access, and utilization. Each of these has its own generally accepted definition.

"Availability" is understood to mean:

➢ Availability of sufficient quantities of food of appropriate quality, supplied through domestic production or imports or via government policies

"Access" means:

➢ Access by households and individuals to appropriate foods for a nutritious diet (U.S. Government, Discussion Draft for World Food Summit, 1996)
➢ Social, educational, and economic conditions that enable individuals to gain access to food by earning income to buy food and through community food security activities (Source: IWG, 1999)

"Utilization" is taken to mean:

➢ Optimal uptake of nourishment thanks to a sustaining diet, clean water and adequate sanitation, together with health care (U.S.Government, Discussion Draft for World Food Summit, 1996)

Agricultural trade can make a significant contribution to all three pillars of food security.

⇒ As far as **availability** is concerned,

- Agricultural trade can lead to greater <u>production</u> through--

  – Intensification of land use,
  – Use of higher-yielding cultivars,
  – Better management practices,
  – Increased irrigation usage, and when appropriate,
  – Expansion of the agricultural frontier

- Agricultural trade can improve <u>distribution</u>, allowing product to move from surplus to deficit areas that arise due to--

  – Weather conditions (in Africa, especially drought)
  – Seasonality of production cycles
  – New trade barriers
  – Political, civil, ethnic, military conflict

⇒ As far as **availability** is concerned,

- Agricultural trade can generate higher returns and capacity to purchase through-

  - crop substitution
  - increased value-added
  - lower costs due to increased scale

- Agricultural trade can lower prices for local consumers, leading to greater consumption of fresh and processed food

⇒ As far as **utilization** is concerned,

- Agricultural trade can diversify and improve diets among workers and consumers
- Agricultural trade can lead to the adoption of Good Agricultural Practices that minimize environmental impact, improve sanitation, and protect the health of workers
- Agricultural trade can also lead to the adoption of post-harvest and processing technologies that improve the safety of food, while extending its transit and shelf life, which in turn conserves condition

C. Current Thinking about Agricultural Trade Development

1. Liberalization

The consensus is strong among economists, development planners, policy-makers and private companies that the world benefits from trade liberalization. Agricultural trade liberalization brings special benefits. A USDA/ERS Summary Report entitled "The Road Ahead" (2001) declares that "unambiguously, further agricultural policy reforms by developed countries will lead to an increase in world agricultural prices relative to their trend levels, and greater market access and higher prices for developing country agricultural exports. If developed countries were to fully eliminate their own agricultural support policies, the value of agricultural exports by all developing countries would increase by about 24 percent.." LDCs would benefit both from enhanced market access and higher prices for their exports to the major markets of the world.

This ERS study further decomposed projected effects in terms of three main types of policy distortions, and on imports versus exports. If developed countries were to eliminate all of their policy distortions, LDC exports to the developed world would gain 18.1% in value due to enhanced market access, 5.5% in value due to withdrawal of domestic support, and 0.6% in value due to elimination by developed countries of export subsidies. On the other hand, if developing countries were to eliminate their policy distortions (which are generally limited to market access issues), the value of exports from developed countries would rise 24.6% versus 5.5%. If all countries were to eliminate their agricultural policy distortions, the volume of world agricultural exports would rise 16.1% and the value by 26.5%. In other words, everyone would be better off.

If all of the above is true, why have many developing countries opposed further liberalization under WTO? The reasons are several. First, even though lower tariffs in developed country markets will help some LDC exporters, others would face a reduction in tariff preferences that currently help their exports thanks to special, concessional trade agreements such as Lomé Convention treatment of products from ACP countries or U.S. treatment of products from Caribbean Basin and Andean Trade Preference Act countries. Secondly, not all LDCs are equally ready to take advantage of full agricultural trade liberalization, because their exporting capacity is limited. Thirdly, even where potential welfare effects are recognized, many LDCs are concerned about short-term impacts of key domestic industries that will need time and assistance to become more competitive. Fourth, some LDCs argue that safety net measures may be needed for those industries and even entire countries that are likely to be hurt more than helped, at least in the short- and medium-term. Lastly, some LDCs feel that the developed countries have more to gain in percentage and absolute dollar value than the developing countries, so the distribution of benefits would be skewed. The recent Doha round of WTO negotiations put agriculture back on the front burner, and allowed many such issues to be vetted, but there does not seem to have been too much real progress at resolving them.

2. "Getting Trade Integration Right"

During the past two decades globalization has gained momentum in overlapping but more or less identifiable stages: initially within the developed world, next between developed countries and "globalizer" countries that managed to move into middle-income status and beyond, then between LDCs and the North, and most recently even among LDCs. Development strategists all over the world have attempted to understand how and why it has happened, and also what lessons to apply to speed up and take advantage of the globalization process for their own country or for a country they would like to assist.

While "getting prices right" was the rallying call in the Eighties, in effect "getting trade integration right" became the main slogan in the Nineties as free trade areas proliferated and combined, as virtually all countries acceded to GATT and many to the WTO, and as Customs Unions began to form around natural trading blocs such as Kenya-Uganda-Tanzania. Integration requires not only a reduction in anti-export biases caused by high effective rates of protection, but also liberalization of trade in both services and goods, pursuit of regulatory reforms that foster competition, improvements in trade logistics in the broadest sense, and institutional frameworks that stimulate innovation and technology diffusion.

Trade integration has international, regional and national dimensions, all of them important. Accession to the WTO implies the need for time-consuming and costly policy analysis, formulation of positions, negotiations, follow-up dialogue and last but not least, compliance. Formation, structuring and implementation of a regional trade agreement such as COMESA entails similar actions, yet with more countries and without an umbrella structure already in place. Many COMESA countries have to deal with other regional groupings such as SADC, SACU, IGAD, and EAC. Most have unfinished "border barrier" (e.g. tariff and NTB) agendas, "behind-the-border" agendas (such as restrictions on international competition in transport services), and also non-border agendas. The sheer workload can be overwhelming.

3. Trade Capacity-Building

Cognizant of the complexity of trade liberalization, the U.S. Government Policy decided long ago to try to help other countries build their trade capacity. USAID has generally followed suit, emphasizing interventions in certain key areas:

- Trade Policy Analysis and Reform
- Trade Facilitation
- WTO Accession
- Legal and Regulatory Reform
- Technology and Standards
- Customs
- Human Resources
- Finance
- Infrastructure
- Environment
- Foreign Investment and Incentives

While all of these areas remain important, and much work is still to be done in Sub-Saharan Africa in each one, some knowledgeable observers are wondering whether "getting trade integration right" will be enough. As Bernard Hoekman of the World Bank puts it, "*Success in integrating into the world economy is not universal in part because not all countries reformed trade policies sufficiently, but also because many complementary policy reforms are required to support trade reforms. Measures to create an enabling environment for supply-side responses to changed incentives are needed.*"

4. "Getting Markets Right"

In a recent presentation IFPRI's Eleni Gabre-Madhin argued that agricultural market reform was the missing link, at least in Africa. After citing examples of partial reforms, policy reversals, price liberalization not accompanied by market access liberalization, marketing liberalization not coupled with processing, rapid liberalization accompanied by macro-economic instability, and other mistakes or half-measures, the speaker reviewed research findings from a number of countries that had tried to reform.

Despite false starts and imperfect implementation, some progress has been achieved. As far as input markets are concerned, for example, they found that rapid entry of new firms often occurred, followed by exit by the inexperienced or uncompetitive. Retailer outlets proliferated, but mainly in areas of dense fertilizer use. Access to credit for input use tended to decline. Overall input use declined, particularly for food crops. With respect to output markets, market competition increased, marketing margins declined, integration improved, and there was a positive impact on farm prices. In general, export crop production tended to increase while food production and yields stagnated.

Based on IFPRI's research findings, Gabre-Madhin concluded that the development of "institutions for markets" should be a major development thrust for Africa, because good policies are not enough to elicit a strong supply response. According to this view, market incentives are best embodied in institutions, meaning the rules and norms, enforcement mechanisms and organizations that support market transactions. Institutions may be formal or informal. When institutions are weak, there is often a lack of timely, complete and accurate market information, which limits capacity to respond to market signals and results in low producer bargaining power.

The absence of meaningful grades and standards necessitates repeated visual inspection, resulting in high handling costs, limited forward contracting and a scarcity of trade credit. The lack of enforcement of contracts leads to reliance on narrow, trust-based networks. Finally, intermediation is often missing, which results in inefficient allocation of resources in the search for product. The IFPRI presentation closed with an appropriate summary quote from Douglass North (1989): "Economic growth is dependent on stable political and economic institutions that provide low costs of transacting in impersonal political and economic markets".

5. Stimulating a Supply Response

Many analysts have noted that the supply response expected as macro-policy adjustment runs its course, as tariffs fall, as non-tariff trade barriers (NTBs) are eliminated, and as markets open up has been deficient in many LDCs, especially in Sub-Saharan Africa. Some ascribe this to unfinished business in terms of getting prices right, getting integration right or getting markets right. While there is probably some truth in those viewpoints, there may be a more fundamental problem--lack of international know-how within the private sector.

Some important research conducted by the World Bank's Economic Development Institute in the early 1990's centered on identifying keys to success in export development. Examining the Asian Tigers in particular, they found that even when the policy and enabling environment were perfected, a vigorous supply response did not necessarily occur spontaneously. **A catalyst was needed** in those situations where the know-how was lacking as to how to package the various elements necessary to be successful in international markets. These included the business concept, technology, product, pricing, promotion, export fulfillment, and service, among others. The catalyst could be a lead entrepreneur, an export promotion organization, an importer or any other economic or non-economic actor. In most cases, conspicuous success could be traced back to someone playing such a role. There is a lesson here for Sub-Saharan Africa agricultural trade development.

6. Approaches to Competitiveness in International Trade

Although there are various different theories of competitiveness in the international trade arena, most would agree that competitiveness begins with comparative advantage, which is often measured according to the utilization of domestic resources (DRC), but is also affected by policy "distortions" such as production or export subsidies or protection against imports.

Unfortunately, most studies of comparative advantage done by economists focus on cost competitiveness, which may no longer make sense in global food and agricultural trade. As consumer purchase decisions in developed country markets shift away from price and toward quality, safety, excitement, convenience, diversity, "greenness", packaging and many other non-monetary considerations, assessing competitiveness of a given product based solely on cost seems out of sync with the sophistication of the ultimate market arbiters. Similarly, since retailers increasingly strive to understand and respond to consumer preferences as fully and rapidly as possible, they now judge suppliers less on matters of price and more on breadth of product line, consistency of supply, product innovation, speed of delivery, quality assurance systems, willingness to share in promotional programs, and fit as a long-term partner. The breadth of such considerations casts doubt on the validity of comparative advantage as traditionally defined as the primary measure of competitiveness.

Arguably the most innovative and compelling approach to competitiveness that has appeared in recent times is that of Michael Porter, who introduced his theory in 1990 in a landmark book called <u>Competitive Advantage of Nations</u> and later expanded it in key articles such as "The Microeconomic Foundations of Economic Development" <u>(Global Competitiveness Report 1998)</u>.

What was especially innovative and important about Porter's approach was his attempt to meld macroeconomic and microeconomic theory into a single conceptual framework, giving competitive advantage equal importance to comparative advantage. He writes:

"Productivity is the main determinant of competitiveness, whether at the level of firm, industry, country or region. The central issue in economic development is how to create the conditions for rapid and sustained productivity growth...While sound political/legal structures and macroeconomic policies create the potential, actual productivity will only increase if the nation improves its capabilities at the microeconomic level...Without micro-reforms, growth in GDP induced by sound macro- policies will be unsustainable and will not translate into improvements in GDP per capita..."

In Porter's view, "productivity has two parts: the value (prices) that a nation's products command in the marketplace, and the efficiency (costs) with which standard units are produced. Factor productivity, which is the revenue produced per unit of labor or capital, sets the wages that can be sustained, the returns to invested capital and the net surplus generated by a nation's physical resources".

Porter believes that in this day and age "economic development requires a transformation of the types of competitive advantages a nation's companies enjoy in international markets. Advantages must shift from comparative advantages such as low-cost labor or natural resources to competitive advantages due to unique products or processes".

His central thesis is that the competitive advantage of a country in a given industry is based on four factors and their interactions. The factors include: demand for the product; factor endowment; existing related and supporting industries; and firm strategy, structure and rivalry. "Factor conditions" refers to a nation's ability to turn its basic resources--not only natural resources but education, skills, wages, capital, technology, and information--into a specialized advantage. "Demand conditions" refers to the size of market, the sophistication of domestic consumers, and media exposure for products. "Quality of related and supporting industries" refers to the nature, number and organization of suppliers of required inputs and services. "Company strategy, structure and rivalry" determine how a nation's businesses are created, organized and managed. Together these four factors form "Porter's Diamond", which can in turn be helped or harmed by governmental policies, regulations and public investment decisions. Government can influence any or all of these factors via policy and investment.

In sum, as it considers which subsectors, industries, and product groups may have the most trade growth potential, REDSO should take into account not just perceived or realized comparative advantage, but also actual and potential competitiveness.

Section IV

Summary of Other Relevant Development Activities

During the initial weeks of the fieldwork, the consultant team collected background information about other agricultural trade-related programs, projects and activities, on-going or planned, with a view toward achieving complementarity and avoiding duplication. The most relevant activities found are summarized below.

A. Agency-wide Programs and Projects

1. New Agricultural Initiative

Led by the USAID Administrator, this policy move will increase the proportion of the Agency's budget devoted to agriculture. The core areas are:

- Technology systems and applications that support agricultural growth and economic transformation;
- Community based farmer and business organizations equipped to take advantage of new market opportunities, as well as producer, business and environmental services;
- Improving efficiency and equity of agricultural market and trade systems
- Building human capacity to shape and lead policy, technical and service development efforts;
- Ensure that vulnerable groups have access to services and markets;
- Ensure that economically important land use systems are developed in an environmentally sustainable manner.

2. The Global Development Alliance

GDA is a new USAID initiative announced in May 2001 which seeks to leverage collaboration of others donors, host countries, and private sector partners in mutually beneficial shared development endeavors, in order to add to the resources available to address development constraints.

GDA is the First Pillar of USAID's reorganization and reform strategy. No longer are governments, international organizations and multilateral development banks the only assistance donors. Rather, over the past 20 years, NGOs, PVOs, cooperatives, foundations, corporations, the higher education community, and even individuals, now provide development assistance. As a result, the USG is not the only, or even the largest, source of U.S. resources applied to the challenges of overseas development.

The GDA will be a reorientation in how USAID sees itself in the context of international development assistance, in how the Agency relates to traditional partners, and in how its seeks out alliances with new partners. USAID will use its resources and expertise to assist strategic partners in their investment decisions, and will stimulate new investments by bringing new actors and ideas to the overseas development arena.

The Agency will continue to deploy resources where private funding is not available and where the governmental role is clear and pre-eminent to stimulate institutional and policy change. However, when feasible, GDA activities will provide synergy and economies of scale to organizations and individuals working on common development issues.

B. Regional Programs and Projects

1. The African Growth and Opportunity Act

AGOA was passed by the U.S. Congress in May 2000 in an effort to encourage African countries to develop exports for the American and other international markets. Among other provisions, it allows eligible African countries to export products to the United States duty free. Although the Act applies to Africa as a region, countries must qualify individually. Several ESA countries have passed this hurdle and are aggressively seeking domestic and foreign investment to take advantage of AGOA. From the perspective of REDSO's new regional agricultural trade strategy, investments in the cotton/textile industry are likely to be the most prominent vertical industry that will benefit from AGOA, but there will probably be many cross-cutting, theme-based projects as well--some arising out of USAID/Washington, others from within the region.

2. TRADE

In October of 2001 the White House issued the following press release:

"Beginning in Fiscal Year 2002, the United States Agency for International Development (USAID) will inaugurate a new, multi-year trade capacity building initiative, Trade for African Development and Enterprise (TRADE). TRADE will promote regional integration and regional cooperation by strengthening the ability of African countries and businesses to develop their export trade. Regional Hubs for Global Competitiveness will be located at USAID's three regional missions in Mali, Kenya, and Botswana will provide the overall coordination of the initiative as it is implemented. Staff resident in the Hubs will also support country-based activities to facilitate national competitiveness in global markets. Resources flowing through TRADE will:

- Promote U.S.-African business linkages;
- Enhance the competitiveness of African products and services;
- Expand the role that trade can play in African poverty reduction strategies;
- Improve the delivery of public services supporting trade;
- Build African capacity for trade policy formulation and implementation; and
- Strengthen the enabling environment for African businesses.

Good governance and sound macroeconomic environments will be fundamental for participation in TRADE. The Initiative seeks to mobilize a coalition of U.S. and host-country partners from both the government and the private sector to support specific trade capacity-building needs. The Regional Hubs will facilitate capacity building activities through linkages with African regional trade organizations and networks, in cooperation with African and U.S. educational and business networks, U.S. and African government agencies, and other donors." Trade for African Development and Enterprise Program (TRADE):

Initial FY2002 funding has been set at $15 million. It is very possible that additional resources will be available in the future. Some of this funding could flow to REDSO to support activities that are relevant to the strategy being considered here, or possibly to add funding to this strategy. It is also likely that funds will flow to ESA bilateral missions for trade-related activities that could reinforce or complement what REDSO elects to do in this arena.

3. RCSA

In the third quarter of 2001, USAID's Regional Center for Southern Africa (RCSA) based in Botswana drafted a "Substrategy on Agricultural Trade and Non-Tariff Barriers to Trade" as a vehicle for achieving its SO-013 ("Expanding commercial markets for agricultural commodities in the SADC region"). The draft design was based on the premise that rules-based agricultural trade for selected commodities will expand: (1) if there is an economic, competitive advantage once food quality and food safety are improved; and (2) if technical, physical and biological constraints to trade are removed or relaxed. With that premise in mind, three types of activities were envisioned:

- Promote rules-based trade by identifying and removing blocks in the marketing chain that impede trade--i.e. a combination of market development activities and policy reform activities

- Build human and institutional capacity to initiate market development and policy reform in the private sector and national governments in order to promote international trade

- Improve access to information on agricultural trade, focusing on policy reform and promotion; regulation, trade and market information

As envisioned by the draft design document, 2-3 commodities of interest would be targeted, then every effort would be made to remove or relax non-tariff trade barriers in the marketing chain that currently constrain regional integration and trade. Through this process, southern Africans would gain the skills and experience needed to develop, promulgate and enforce internationally accepted grades and standards, which in turn would open up trade opportunities for other competitive commodities and markets.

While it is too early to know the ultimate content of this RCSA initiative, a concerted effort should be made to share information during the final design process and then into implementation, because the objectives and activities of the RCSA and REDSO agricultural trade programs could end up fairly similar, or at least complementary.

4. The Integrated Framework for Trade-Related Assistance

UNCTAD, the International Trade Centre (ITC), UNDP, WTO, IMF and the World Bank have combined forces in this umbrella strategy, which seeks to assist LDCs in expanding participation in the global economy, starting through the preparation of 'trade strategies". The IF work program involves country-specific diagnostic "trade integration studies" to be carried out to analyze trade obstacles and prioritize technical assistance requirements. Madagascar was the first pilot in East and Southern Africa, Malawi is at the diagnostic stage, and others are to follow.

Work under the IF also facilitates coordination of trade-related policy dialogue and implementation work on the sub-regional level, supporting periodic meetings of decision-makers from inter-governmental bodies such as SADC and COMESA, as well as national-level representatives from the public and private sector who are interested in trade facilitation. It is possible that the REDSO trade program that will emerge from the present design process could make use of the conferences, workshops and periodic meetings that the IF supports, to better achieve dialogue on agricultural trade matters.

5. Famine Early Warning System Network

FEWS NET is USAID-funded partnership working to improve food security in 17 drought-prone countries in Africa. The objective of FEWS NET is to help establish more effective, sustainable, and African-led food security and response planning networks that reduce the vulnerability of at-risk groups. FEWS NET builds upon the work of FEWS, which operated from 1985 to June 2000.

FEWS NET specialists in the US and Africa assess remotely sensed data and ground-based meteorological, crop, and rangeland conditions for early indications of potential famine areas. Other factors affecting local food availability and access are also carefully evaluated to identify vulnerable population groups requiring assistance. These assessments are continuously updated and disseminated to provide decision-makers with the most timely and accurate information available.

The Nairobi-based regional hub of FEWS NET for the Horn of Africa is working to improve the commercial relevance of agricultural situation and outlook and price reports that until now it has been generatiing and distributing mainly to the development community. Such information could help make intra-regional trade more efficient by enabling producer groups or traders to better respond to local food deficits, whether directly or indirectly through participation in tenders by entities such as those put out by World Food Programme.

6. Global Information and Early Warning System

Somewhat analogous to FEWS NET is FAO's GIEWS, which has been operating since 1975. The system's goal is to provide policy-makers and policy-analysts with the most up-to-date and accurate information available on all aspects of food supply and demand. In doing so, it provides regular bulletins on food crop production and markets at the global level and situation reports on a regional and country-by-country basis. Although FEWS NET and GIEWS have similar objectives and activities, there does not appear to much coordination between them. As a regional effort, REDSO's agricultural trade strategy and program could work to bring these other two programs together, for the benefit of all.

7. The Special Programme on Food Security (SPFS)

The main objectives of FAO's SPFS are to assist low-income, food-deficient countries (LIFDCs) to rapidly increase food production and productivity on a sustainable basis, to reduce the year-to-year variability of production, and to improve access to food, as a contribution to equity and poverty alleviation. SPFS is implemented by governments and rural communities in two phases:

- Field demonstrations of Phase I involve the mobilization and training of local personnel and farmers and the supply of seeds, tools and equipment. The four interrelated and complementary components of this phase are: water control, including small-scale irrigation and drainage, water harvesting and on farm water management; intensification of sustainable plant production systems; diversification towards aquaculture, artisanal fisheries and small animal production; and analysis of socio-economic constraints. The results obtained at demonstration sites each season are quantified and analyzed to reorient operations and provide a firm analytic basis for replication at additional sites.

- Phase II, the macroeconomic level of the SPFS, entails a nationally prepared action plan addressing at large scale the opportunities and constraints identified in the previous phase. The plan is composed of national food and agriculture policies intended to lift macro-level and sectoral constraints and provide an environment favourable to agricultural production, processing, marketing and access to food; an agricultural investment programme, to improve the physical infrastructure and increase the private and public financing of agricultural activities and services; and feasibility studies of "bankable" projects ready for implementation.

Since the ultimate objective of the on-going REDSO agricultural trade strategy is to enhance food security, Phase II of SPFS is of direct relevance, and an effort at coordination should be made during implementation of the REDSO program.

8. Bridging the Standards Divide: Challenges for Improving Africa's International Market Access

Executed by the World Bank but with partial funding from USAID's ATRIP program, the main thrusts of this project are to:

- Assess and build awareness (via workshops and capacity-building) on the range, importance, and impact of international standards and technical regulations on Africa's current and prospective trade, with a focus on agricultural, food, and light manufactured products. The project is intended to play a unique role in strengthen Sub-Saharan Africa's integration into the world trading system, and enhance communication between trade officials and the private sector. It will also strengthen Africa's capacity to exercise rights and meet obligations under the WTO Agreement on Technical Barriers to Trade and Agreement on Sanitary and Phytosanitary Standards;
- Analyze the current status of African supply systems and regulatory/certification arrangements and the gaps between these systems and supply chains linked to OECD markets. Analysis will also cover the strategies being taken by different industries, to comply with these evolving international/external standards and the bottlenecks and costs faced in this process;
- Highlight 'best practice' models—both from within and outside of Africa-- for implementing reforms and capacity building in this area. This will cover public, private, and joint public-private initiatives;
- Develop five country-specific action plans—including South Africa, Kenya, Uganda, and Mozambique-- to expand access to and use of international standards. This will include the identification of specific infrastructure and capacity building needs, both in the public and private sectors. The expectation is to build on these first 5 countries to extend the work into other countries over time. Subsequent implementation of action plans will increase the ability of African exporters to serve international markets and meet WTO obligations
- Develop databases and the design for a new "Standards Access Africa" network to deliver information on standards and regulations critical to development and trade obligations. The network will leverage the World Bank's Global Distance Learning network.

9. Pesticides Initiatives Program (PIP)

Responding to the increasingly stringent food safety standards being applied in the European food markets under EurepGAP (Good Agricultural Practices for Europe), ethical trading standards, and other similar initiatives, **PIP** is a food safety program that aims to contribute to the development of the private sector in Lome Convention/ACP countries by protecting and enhancing horticultural export industries that ship to the EU markets. Created with EU funding, PIP is being implemented by COLEACP, an interprofessional association of exporters, importers and other stakeholders involved in the EU-ACP horticultural trade. The Chairman of COLEACP is a Zimbabwean fresh produce exporter, who collaborated in this strategic analysis.

PIP has four components: (1) information and communications, (2) regulations; (3) good practices and health control; and (4) strengthening of capacity. Since PIP is the leading multi-country program seeking to keep the EU market open to African horticultural exports by addressing the issues of appropriate pesticide use and good agricultural practices, the new REDSO agricultural trade program should seek ways to coordinate with it.

C. National Programs and Projects

While too numerous to review here, there are also many national-level programs, projects and development activities of potential relevance to the REDSO Regional Agricultural Trade Development Strategy/Program. For example, on-going USAID-funded agribusiness development projects in Uganda and Rwanda are extremely relevant because their commodity and industry-oriented approach to agricultural development serves to increase the supply of higher quality food, fiber or ornamental products suitable for export. The UTRADE and APEP projects in Uganda, which will soon move into the implementation phase, as well as new fruit and vegetable, maize and dairy development projects currently being designed in Kenya will also serve as complements to the new REDSO agricultural trade program.

Section V

Summary of Critical Issues Identified from the Fieldwork

Between October and December 2001, the consultant team met with over 50 individuals in various locations in Africa and in Washington to survey the problems and constraints that confront increased regional agricultural trade within East and Southern Africa. The objective was to obtain useful input from entities ranging from private sector organizations, multilateral institutions, NGOs, USAID bilaterals, and USAID Washington, hopefully leading to a broad-based understanding of problems and constraints. The team also sought to obtain the opinions of these organizations concerning practical opportunities for the promotion of future trade, both in terms of programmatic options and of product-specific export opportunities that the REDSO program might focus on.

The following pages summarize the comments that were received in the field according to problems, constraints, and opportunities.

A. Problems

1. Policy Issues, Regulatory Environment, Public-Private Interaction:

COMESA and international trade agreements:

- Broad inconsistencies in national trade policies of COMESA members continue to distort trade flows. Further deregulation of regional trade is critical.
- COMESA has focused primarily on Rules of Origin, NTBs, and WTO adhesion to the exclusion of other key issues. For example, sanitary and phytosanitary (SPS) provisions as well as grades and standards (G&S) seem not to have been given proper attention.
- From the start, COMESA was intended to be lean and efficient, but this has left it with inadequate capacity. COMESA needs further institutional support, probably in the form of technical advisors from within the region charged with managing specific tasks. If REDSO wishes to support additional special tasks, advisors will need to be dedicated to these activities.
- COMESA has had very little private sector impact and has focused too much on policy and public sector. There is limited interaction with the private sector.

- A more agile dispute resolution and arbitration system is needed in the region to facilitate trade without having to resort to the courts.

- COMESA's differences with the Southern African Customs Union (SACU) are a big problem in enforcing the COMESA FTA protocols.

- COMESA has no role in monitoring compliance to liberalize trade rules. COMESA should have oversight responsibilities so as to be able to report back to member states on how well trade agreements are being applied. Similarly, it has no role in the training of personnel in overseeing border transactions and procedures. A possibility would be the development of COMESA Service Centers to oversee and train customs officials.

Observations on trade restrictions facing agriculture trade:

- The flow of agricultural goods is highly restricted by non-tariff trade barriers (NTBs), particularly by arbitrary export/import permit and licensing requirements.

- Visa and work permit requirements restrict the ability of traders to market their goods in neighboring countries.

- Excessive bureaucratic delays and corruption in goods clearance at border posts are common, constituting significant barriers.

- There are inconsistencies in customs procedures, documentation, checking and inspections at border posts due to lack of a harmonized system and monitoring.

- There is a lack of common standards and procedures. Sanitary certificates are often not recognized by importing countries. There is a need for mutual recognition of certificates.

- Customs clearance fees should be payable through freight forwarders and not at border posts. The role of customs officials should be to check documentation only so as to minimize opportunities for corruption and delays at the border.

- There should be one-stop border clearance systems and mutual recognition of clearances.

- Standards on axle load limits need to be harmonized and respected.

Issues with respect to private sector participation:

- Private and public sector dialogue at the regional level is extremely weak.

- The private sector must be engaged. There is a need to bring people who actually produce and sell products into the consultative process, and a related need to strengthen producer and trade associations to push their agendas.

- The private sector has been very selective in its advocacy, always advocating open markets outside, while trying to protect themselves from imports.

- The private sector needs active regional umbrella bodies, which are still lacking.

Other observations on regional agricultural trade:

- The region is characterized by a strong and thriving informal trade sector. Trade statistics do not reflect the size of this trade. The big issue now is how to bring this into the formal sector; i.e. how to make it easier to enter the formal sector.

- There is too much emphasis on trading of commodities, and too little on supply chain development.

B. Resource Constraints:

Lack of market information:

- There is a lack of reliable market information and fully transparent marketing systems. Commodity exchanges should be promoted.

- Marketing communications and trade links are weak. Commercially-oriented intelligence gathering systems that includes crop situation/outlook and relevant, timely price/volume information are needed.

- Most market information systems have been devised by organizations and consultants and are too sophisticated for their intended users and not demand-driven. The question of what traders want must be better addressed. What information will they use and in which format?

High transactions costs:

- Transaction margins (in the view of some commentators) are the principal barriers to profitable intra-COMESA region trade. A single commodity is often traded 7-10 times before it gets to the final consumer, leaving the producer with extremely low returns and the ultimate consumer with higher prices than necessary.

- The major impediments to regional trade are lack of finance, affordable transport, and grades and standards. Transportation margins are probably the biggest barrier to cross-border trade in the COMESA region.

- The lack of bonded warehouses at border posts is a serious impediment.

- The lack of an effective freight-forwarding system and national insurance regulations are additional problems. [One] could eliminate many administrative problems at borders by recognized use of freight forwarders.

Lack of effective, realistic grades and standards:

- Sophisticated laboratories are needed to test SPS compliance in the region.

- The lack of grades and standards is another problem, but [if badly done] they could be used as NTBs. For intra-regional trade, grades and standards may not always be relevant, and may actually restrict legitimate trade, forcing it to go 'informal'. "Don't impose grades that consumers themselves don't demand". Different categories, or 'graduated', grades and standards are needed so as to promote, not to restrict, trade.

Examples of product-specific issues:

- Egg imports into Zambia were required to be free from salmonella. However, there is no capacity to test for it at border posts. This has led to a de facto ban of egg imports into Zambia.

- Milk imports into Zimbabwe must be labeled in the various vernacular languages. There is a need to harmonize labeling requirements and make them reasonable.

- An anti-dumping duty is in place in Zimbabwe and Zambia on wheat, potatoes and maize, which is greatly abused.

- Livestock trade has vastly under-performed (except in RSA, Zimbabwe and Botswana). Livestock trade has been hindered mainly by health and disease problems.

- Commercial livestock trade is dominated by national governments.

- Cotton lint quality has been generally low, restricting trade flows.

- Sweet potatoes and cassava have not been heavily commercialized.

- Maize, being the staple food crop for most countries in the region, is very political and highly regulated by governments to guarantee that sufficient reserves are always in place; hence, maize trade

- Commodity exchanges have big needs for warehousing, financing and security

C. General Recommendations for Developing Intra-regional Agricultural Trade

- Establish market-oriented system for gathering and distributing intelligence about the food requirements in all COMESA member states

- Promote commodity exchanges where appropriate, since they have performed well in the Kenyan tea and coffee industries.

- Strengthen existing private sector trade associations and initiate new ones in those countries without such groups.

- Encourage interaction of trade associations at regional level on issues of mutual concern such as regional and international market access.

- COMESA needs to better inform public about success stories, market opportunities and cases being arbitrated. For example, in Mauritius, rice and wheat imports are financed by sugar and textile exports; coffee and fisheries are prospering because of free trade, etc.

- Zambia, Mozambique and Malawi growth triangle should be promoted.

- Uganda, Rwanda, Burundi, Eastern Congo growth cluster has potential.

- REDSO program should focus on widely consumed products but avoid politically sensitive products (such as maize).

D. Specific Agricultural Trade Opportunities:

- Agriculture trade opportunities exist in fish, beans (Malawi/DRC), wheat (Zimbabwe/Zambia), cotton (very important cash crop for the rural poor), beans and peas (important for regional diets). Large markets for beans in RSA and DRC.

- Main trade flow from East Africa to South Africa is beans, sorghum and oilseeds.

- Dairy trade is very active between Kenya and Uganda; can however be very sensitive and political.

- Livestock mainly exported to the Middle East, except Botswana and Zimbabwe whose main market is the EU.

- Possible pilot for Zambia, Malawi and Mozambique is pigeon peas with potential in the Indian market. Could look at seeds, agronomic and marketing, transport, commercial and policy obstacles.

- Cotton – synergy exists between Uganda growers and Kenyan ginneries; Asian investments in textile factories might well stimulate regional cotton production.

- Horticulture – onions, tomatoes from Tanzania to Kenya; carrots, cabbage, kale and spinach have export potential; fruit exports are largely bananas.

- Oilseeds heavily imported now; should be large local market.

- Highest value intra-regional exports are livestock, bananas, and coarse grains (maize).

- Easiest products to organize into regional export initiatives would be horticulture, oilseeds, pulses, soy; high value and not too 'political'.

Section VI

The Strategy and Program Design Challenge for REDSO

A. The Development Challenge

The range of issues identified in the fieldwork seemed to imply that, among other things, REDSO should strive to:

- Raise consciousness, understanding and support for economic liberalization and free trade, as manifested in WTO, COMESA FTA, EAC Customs Union and other trade agreements
- Build on the recent agreement in principle between COMESA and SADC by harmonizing USAID programming between REDSO and RCSA
- Continue to identify and address the most critical constraints at the level of enabling environment
- Identify areas where USAID can have a concrete impact on trade volume and value while reinforcing the linkages between agricultural trade and food security
- Identify and really involve key economic actors ("movers and shakers") who have strong vested interests in the success of expanded agricultural trade
- Find a way to reconcile the need to work with bigger companies to achieve quicker, more tangible results, and the need to benefit other, smaller players, especially producers
- Identify the traders and other middlemen who make these markets work, then find ways to engage them in the process of reducing NTBs and transaction costs and increasing volume and value
- Fortify the capacity of private actors in agricultural production and trade to conduct policy advocacy and undertake collective action
- Target and support the best opportunities for industry cluster development, supply chain enhancement, triangular trade, trade corridors
- Select interventions that are doable and measurable in terms of their mid-term impact
- Accomplish all of the above in concert with bilateral missions

B. Basic Design Issues

1. Clarifying What Matters Most to REDSO/ESA

Before getting specific about the design, REDSO first needs to answer some difficult questions, and perhaps change how it does business:

- Foremost is how to achieve a balance between capacity-building in the food security and agricultural trade arenas and the attainment of concrete trade-related results, i.e. enhanced food security and measurable increases in agricultural trade.

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- Closely related to that is how "operational" to become. Generally speaking, the more accountability an agency accepts for final results, the more operational it tends to get.

- In the field of international trade, accountability for results in terms of incremental volume and value means much more direct involvement with the private sector than has occurred in the past.

- Once that principle is accepted, in an environment like ESA, where there is relatively little inter-business organization, especially across borders, REDSO may have to play the role of incubator and nurturer of networks and associations more than it did in the past.

- Since a strategy of direct involvement in trade and industry development is intensive in its use of resources, of necessity REDSO will have to "pick winners" in terms of priority countries, most promising segments and product groups, target markets, and even client enterprises.

- To the extent that REDSO moves in such directions, its center of gravity and sense of identity could shift away from traditional development partners, who may resent or oppose it.

- Unless carefully designed and implemented, such a shift could also set up potential conflicts with bilateral missions.

2. Clarifying "Regionality"

In the course of the fieldwork, many REDSO staff members expressed a legitimate concern about the "regionality" of development issues or possible responses to them. The traditional view seems to have been that REDSO should only work on issues that are regional in character and generally try to address them by working with regional institutions. Given: (a) the complex nature of development problems; (b) the globalization of product, people, information and financial flows; (c) the trend toward regional integration: (d) the need for multi-sectoral problem-solving; and (e) the trend toward inter-institutional collaboration, the present state of affairs is more complex than that, and requires a more flexible response. That is because:

Problems may be regional in nature. Trade-related matters tend to be inherently regional. Phytosanitary issues tend to be defined by areas of similar agro-ecology or cropping patterns, which often span borders. Conflicts routinely cross borders. HIV/AIDS respects no boundaries.

Possible solutions to problems can also be regional. Sometimes collaboration between organizations located in different countries is required. At other times policy or regulatory change is needed simultaneously in multiple countries.

Opportunities may be regional in nature as well. Importers often seek an extended supply schedule that requires production in multiple countries. For example, the livestock and meat industry in the Horn of Africa has long crossed borders, and fresh produce supply may have to move up or down the continent to take advantage of optimal supply windows. Finally, increasingly in international trade one finds specialization not just by product but by stage of production (e.g. cotton production and ginning in Uganda, followed by yarn spinning and textile manufacturing in Kenya).

Efficiency in delivery of technical assistance or training may necessitate specialization from a single regional source. There may be economies in having a central source for expertise in such areas as biotechnology, market information, food quality, food processing technologies, and so on.

For all of the above reasons, the consulting team believes that regionality should not automatically mean working on regional problems with regional institutions.

3. Clarifying the Future Relationship between REDSO/ESA, RCSA and Bilateral Missions

If REDSO elects to shift away from analysis toward action, from a supporting to an programmatic role, from a narrow definition of regionality toward a more flexible one, and from a cross-cutting to a vertical approach, it will be necessary to re-shape its relationship with the bilateral missions. Notwithstanding conventional wisdom within REDSO, the consulting team encountered no resistance to such ideas at the bilateral mission level. They would expect a reasonable level of coordination and consultation, but apparently no veto power.

4. Defining which Countries to Work in

Although REDSO has been providing some services to as many as 23 countries, resource limitations may force it to focus on a subset of countries in the regional agricultural trade program. Some of the strategic options set forth below imply a need to pick several clusters of countries, which in total may add up to less than half the potential universe of client countries. Making and then explaining such decisions will be a challenge as well.

5. Defining which Commodities and Industries to Target

Similarly, several of the strategic options would require REDSO to choose presumed "winners" in terms of commodities and industries. Picking winners is a somewhat controversial matter, since some economists and policy-makers believe that public sector agencies cannot do it well, and therefore should not do it at all. Others argue that each time donors or government agencies choose among alternative strategies, development partners or interventions, that too constitutes picking winners, so the targeting of commodities or industries is just another manifestation of the same process. The Consulting Team shares the latter point of view.

6. Measuring Results

As noted in an earlier section, many of the intermediate results and associated progress indicators in the 2001-2005 Results Framework are "process" -type indicators. A shift in the direction being considered here would necessitate the use of more "product"-type indicators on a yearly basis, and "impact"-type indicators over longer periods of time. Examples of more appropriate indicators will be given below along with the various strategic options.

C. Design Criteria

Given USAID policy, REDSO's Results Framework, and the expectation of stakeholders, ideally the new agricultural trade strategy and program should:

- Respond to needs felt and expressed by stakeholders
- Be firmly grounded in economic, trade and agricultural development theory
- Reflect best practices
- Be consistent with USAID EGAT policy
- Complement RCSA and bilateral mission activities
- Play to REDSO's comparative advantage
- Continue or build upon certain legacy activities
- Satisfy USAID environmental policy and environmental concerns of other stakeholders
- Take into account gender concerns, and build in subactivities that reinforce the role of women in agricultural trade
- Have active involvement of private sector
- Be manageable
- Be bankable
- Be implementable
- Be **effective** in achieving objectives

By adopting a participatory approach that included field interviews and a Stakeholder Workshop, REDSO has endeavored to satisfy all or most of these design criteria.

D. Thematic Priorities

While REDSO's activities thus far have tended to be somewhat opportunistic and unconnected, movement in the direction of a program (at least for its agricultural trade activities, if not for all trade-related activities), may require selection of one or more unifying themes intended to give more coherence to the effort, make it easier to explain, and facilitate "buy-ins" from outside and in. Possibilities include:

- ✓ **"Getting regional trade integration right"**
- ✓ "Enhancing trade capacity and competence"
- ✓ "Reducing transaction costs in international trade"
- ✓ "Moving toward a rules-based trading environment"
- ✓ **"Building competitiveness in agricultural trade"**
- ✓ "Value-chain enhancement"
- ✓ "Women in trade"

The Consulting Team favors the two themes shown in bold, because they best capture the need to work both on cross-cutting issues that affect all types of intra-regional and extra-regional trade and on selected vertical supply chains based on selected clusters of products, source areas or target markets.

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Section VII

Strategic Options for a Regional Agricultural Trade Program

A. Summary of Possible Approaches

Responding to the strategic shift that REDSO is making, the Consulting Team formulated a "long list" of strategic options in preparation for the Stakeholder Workshop:

Option 1: General Trade Facilitation

This option would seek to enhance regional capacity to achieve food security by helping public and private sector entities involved in all aspects of trade development to "get regional trade integration right", not just for agricultural trade but for all important sectors. Option 1 would involve continued attention to policy constraints and institution-building activities, but with increased emphasis on effective implementation and enforcement.

Option 2: Agricultural Trade Facilitation:

This option would work to enhance regional capacity to achieve food security by helping public and private sector entities involved in agricultural development to "get trade integration right for agriculture", both within the region and globally. As with Option 1, continued attention would be given to policy constraints and capacity-building, as well as implementation and enforcement, but emphasis would be placed on issues or problems that most affect agricultural trade.

Option 3: Market Institutions

This option would strive to enhance regional capacity to achieve food security by helping public and private sector entities involved in agriculture "to get regional agricultural trade integration right" by completing the process of liberalization and structural reform in the agricultural sector, and by establishing or fortifying markets and marketing institutions throughout the region. Option 3 would focus on the efficiency of markets as a means of improving the transparency and timeliness of market information, by improving the transmission of price signals to producers and traders, by reducing post-harvest losses, by improving product flows, by increasing liquidity, and by encouraging the use of contracts based on pre-agreed grades and standards.

Option 4: Agri-food Supply Chains

This option would work to enhance regional capacity to achieve food security by using a vertical, commodity-specific approach to energize and shape the processes both of "getting regional trade integration right" and "building agricultural trade competitiveness". Pilot projects would trace the flow of products from source area to end-market, identify impediments and opportunities for improvement all along the chain, then work with economic actors to alleviate impediments and pursue opportunities.

Option 5: Value-Added Agriculture

This option would work to enhance regional capacity to achieve food security by identifying value-added opportunities for all or most of ESA's tradable agricultural products, then helping participants at the corresponding step in the productive chain to exploit them, thereby raising their net returns and improving their competitive position in agricultural trade. Value-adding interventions could relate to the products offered, to the processes used to generate or market them, or to the functions that a given set of players performs within the supply chain.

Option 6: Agri-Trade Development Center

This option would enhance regional capacity to achieve food security by providing a full range of agribusiness development support to qualified entrepreneurs and enterprises interested in export markets. Option 6 would involve not only the establishment of a "one-stop shop" in a physical sense, complete with information and technical/marketing support services, but also electronically link together related capabilities in the various Agribusiness Development Centers and other centers of excellence already scattered throughout the region.

Option 7: Enterprise-led Initiatives

This option would enhance regional capacity to achieve food security by targeting and providing intensive support to those export-oriented agro-enterprises across the region who have the most chance of competing in a global marketplace. Firms would be chosen in part because of their existing or potential backward and forward linkages within the region, meaning that their success in export markets would have a significant multiplier effect on other producers and processors in the region.

Option 8: Market-led Initiatives

This option would strive to enhance regional capacity to achieve food security by seeking out or creating especially promising new or incremental agro-export deals within the region or in international markets, putting the deals together, and then making sure that they work for all participants. In effect, the REDSO project team would serve as catalyst, marriage-broker, packager, and general advisor.

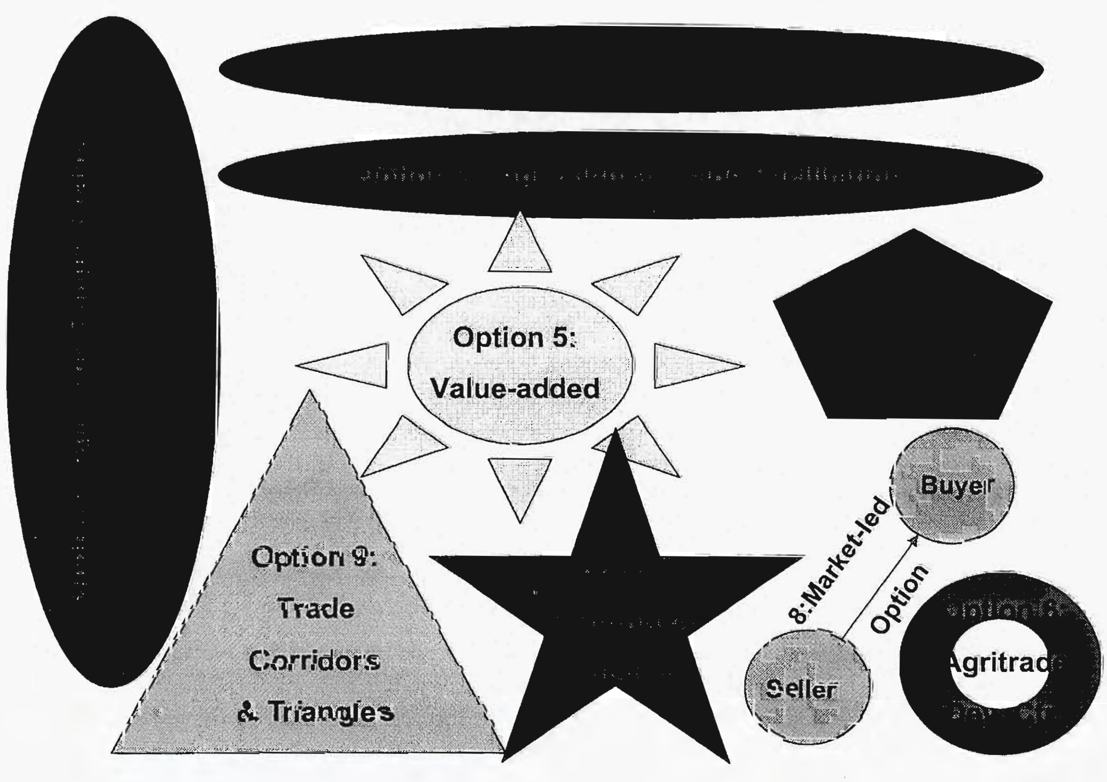
Option 9: Trade Corridors and Triangles

This option would enhance regional capacity to achieve food security by focusing on the development of trade "corridors" or "triangles" involving at least two countries, then build on them in an attempt to simultaneously "get integration right" and "build trade competitiveness" for those agricultural trade situations. It could involve: (a) a shift from informal toward formal trade, or (b) an increase in the volume or value of formal trade for a given product between start and end-points of an existing deal, or (c) the addition of source areas, target end-markets or products in an existing deal, or (d) identification and build-up of an entirely new trade route. The trade could be entirely intra-regional or extra-regional, or a mixture of the two.

To facilitate the discussion that follows, the nine strategic options are presented below in exhibit form.

Figure 9

**OVERVIEW OF STRATEGY OPTIONS
FOR A REGIONAL AGRICULTURAL TRADE PROGRAM**



B. Detailed Description of the General Trade Facilitation Option

General Purposes of Option 1:

1. Improve the international, regional and sub-regional framework for trade
2. Improve trade-related economic policies promoted or adopted within the region
3. Improve the capacity of trade representatives, technical staff and private stakeholders to define trade policy priorities, assess options, make judgments and then ratify each choice via law, decree or rule
4. Improve the enabling environment for intra-regional and international trade by identifying and addressing tariff and non-tariff barriers that constrain trade, paying particular attention to possible increases in market access and reductions in transaction costs and time
5. Improve the regulatory framework for trade in terms of its responsiveness to problems or opportunities, its balance between control and facilitation, its basis in science, its transparency, and its practicality
6. Improve the coverage, rate of adoption, and efficiency of execution of trade-related policy, regulatory, or administrative changes
7. To the extent possible, improve the degree of harmonization of trade-related policies, regulations and administrative procedures all across the region
8. Improve the effectiveness and completeness of public-private sector dialogue and collaboration on trade-related issues

Specific Purposes of Option 1:

1. Enhance the institutional capacity of COMESA, IGAD and EAC to deal with the complexities of WTO, COMESA FTA, ECA Customs Union and other multi-country trading arrangements

2. Assist COMESA to build or reinforce a consensus within the region concerning the benefits of free trade and the need to move forward with the COMESA Free Trade Area as well as selected pro-integration changes in policies, regulations and administrative procedures

3. Assist COMESA to address the issue of short-run loss in state revenues experienced by member States as they move forward with trade integration

4. Assist COMESA and its member States to harmonize across the region the structure of laws, regulations and (to the extent possible) sets of incentives relating to foreign company registration and foreign direct investment, then to better communicate the codes to potential foreign partners.

5. Assist COMESA and member States to devise and then implement an improved process for ensuring more meaningful, complete and timely participation of all

stakeholders--especially private-- in debates concerning trade policy, regulations or rule-making

6. Assist COMESA and its member States to better define and apply rules of origin

7. Assist COMESA and its member States to further simplify and harmonize customs documentation and related fees, to allow payment of most fees at the point of origin rather than the border, and to computerize as much of the export-import process as possible

8. Assist COMESA and its member States to devise and implement an improved payments mechanism for intra-regional commerce

9. Assist COMESA and its member States to devise and implement an agile mechanism for settling trade disputes occurring between member countries without having to go to the COMESA Court

10. Assist COMESA and its member States to devise and implement a region-wide general framework for setting and enforcing grades and standards for selected commodities

11. Assist COMESA and its member States to devise and implement a region-wide general framework for defining sanitary and phytosanitary rules and regulations

12. Assist COMESA and its member States to continue to harmonize and improve transport-related facilities, rules and procedures, particularly with respect to axle-load limits, time spent at borders, inspections

13. Assist COMESA to devise a more effective and efficient insurance scheme for goods traded within the ESA region

14. Assist IGAD to better define its mission and service menu, then to re-orient its structure, fortify its personnel and execute discrete programs (such as the market information system) that REDSO may choose to support

15. Assist ASARECA to further upgrade regional analytical capacity in trade economics and agricultural marketing/trade economics, to better define a trade-related analytical agenda, to scope out and then to carry out action-oriented research efforts, and to disseminate results to stakeholders via Internet, policy forum, training workshop or hardcopy publication

C. Detailed Description of the Agricultural Trade Facilitation Option

General Purposes of Option 2:

1. Improve the international, regional and sub-regional framework for agricultural trade
2. Improve agricultural trade-related policies promoted or adopted within the region
3. Improve the capacity of trade representatives, technical staff and private stakeholders to define agricultural trade policy priorities, assess options, make judgments and then ratify each choice via law, decree or rule
4. Improve the enabling environment for intra-regional and international agricultural trade by identifying and addressing tariff and non-tariff barriers that constrain such trade, paying particular attention to possible increases in market access and reductions in transaction costs and time
5. Improve the regulatory framework for agricultural trade in terms of its responsiveness to problems or opportunities, its balance between control and facilitation, its basis in science, its transparency, and its practicality
6. Improve the coverage, rate of adoption, and efficiency of execution of agricultural trade-related policy, regulatory, or administrative changes
7. To the extent possible, improve the degree of harmonization of agricultural trade-related policies, regulations and administrative procedures all across the region
8. Improve the effectiveness and completeness of public-private sector dialogue and collaboration on issues that affect agricultural trade

Specific Purposes of Option 2:

1. Enhance the institutional capacity of COMESA, IGAD and EAC to deal with the complexities of agricultural provisions contained in WTO, COMESA FTA, ECA Customs Union and other multi-country trading arrangements

2. Assist COMESA to build or reinforce a consensus within the region concerning the benefits of free trade in agricultural and food products, and the need to move forward with the COMESA Free Trade Area as well as selected pro-integration changes in policies, regulations and administrative procedures

3. Assist COMESA and its member States to harmonize across the region the structure of laws, regulations and (to the extent possible) sets of incentives relating to foreign company registration and foreign direct investment in agribusiness, then to better communicate the codes and incentives to potential foreign partners

4. Assist COMESA and member States to devise and then implement an improved process for ensuring more meaningful, complete and timely participation of all stakeholders--especially private--concerned with agricultural trade development in debates concerning policies, regulations or rule-making

5. Assist COMESA and its member States to better define and apply rules of origin as they affect raw agricultural materials, semi-processed and processed food/feed/fiber items, and other manufactured products that make significant use of ingredients, additives etc derived from the production of crops or livestock

6. Assist COMESA and its member States to further simplify and harmonize trade documentation (including phytosanitary certificates) and related fees, to allow payment of most fees at the point of origin rather than the border, and to computerize as much of the export-import process as possible

7. Assist COMESA and its member States to devise an Agricultural Marketing Act or similar legislation that will provide the legal foundation of possible future initiatives (e.g. Agricultural Marketing Order) in the areas of applied research, supply management via grades and standards, and promotion, that could require the right to self-assess fees

8. Assist COMESA and its member States to formulate a Perishable Agricultural Commodities Act or equivalent, designed to govern the rules of intra-regional trade in fresh produce, including: licensing of handlers above a certain level; rules relating to quality and condition, terms of sale, delivery and acceptance; provision for rapid dispute resolution; and penalty for less than full and timely payment

9. Assist COMESA and its member States to devise and implement an improved payments mechanism for intra-regional commerce in agricultural and food products in general

10. Assist COMESA and its member States to devise and implement a region-wide general framework for setting and enforcing voluntary or industry-imposed grades and standards for selected agricultural commodities

11. Assist COMESA and its member States to devise and implement a region-wide general framework for defining sanitary and phytosanitary rules and regulations, then to define at the regional and/or national level specific provisions for selected products, defects or pest/disease issues

12. Assist COMESA and its member States to continue to harmonize and improve transport-related facilities, rules and procedures, particularly with respect to axle-load limits, time spent at borders, inspections

13. Assist COMESA to devise a more effective and efficient insurance scheme for agricultural goods traded within the ESA region

14. Assist COMESA to facilitate the establishment or upgrading of a regional reference laboratory for agriculture-related analyses, and to facilitate and support the establishment or upgrading of national-level ag labs capable of doing on a commercial basis the whole range of soil, plant, water, viral identification, pesticide residue, and other types of analyses normally required in agricultural trade

15. Assist IGAD to better define its mission and service menu with respect to agricultural trade, then to re-orient its structure, fortify its personnel and execute discrete

programs (such as a crop and livestock market information system) that REDSO may choose to support

16. Assist ASARECA to further upgrade regional analytical capacity in agricultural marketing and trade economics, to better define an ag-trade friendly analytical agenda, to scope out and then to carry out action-oriented research efforts, and to disseminate results to stakeholders via Internet, policy forum, training workshop or hardcopy publication

17. Through COMESA, help train decision-makers in the public and private sector in the matter of Intellectual Property Rights as they relate to agriculture, paying particular attention to seeds and Genetically Modified Organisms (GMOs), then help establish a harmonized framework for dealing with IPR issues

18. Assist interested private stakeholders to establish support, training and certification capabilities on a regional or national level in certain key areas such as: organic, "ethical", HACCP, ISO 9000, GAP, GMP, EurepGAP, Better Process Control School.

19. Establish (in concert with bilaterals) a region-wide training program in support of agricultural trade, focusing on key topics such as: market assessment and research; agricultural trade statistics; internet sources for agriculture and trade; technology selection; food quality; food safety; import requirements in target markets; supply and demand situation for selected product groups; food market structure in targeted markets; negotiation of international supply contracts and agreements; terms of sale; labeling and marking; cooling and refrigeration; cold chain management; etc.

20. Provide technical and start-up financial support to new private associations relevant to agricultural trade, whether product-specific (e.g. seeds), theme-specific (e.g. organic agriculture), activity-specific (e.g. exporters), or cross-cutting (e.g. freight forwarders and handlers), and also facilitate and support every form of networking between them

D. Detailed Description of the Market Institutions Option

General Purposes of Option 3:

1. Improve the transparency, orderliness, efficiency and effectiveness of the agricultural marketing system in East and Southern Africa

2. Reduce distortions caused by price supports, price controls or continuing State involvement in agro-food chains

3. Increase diversity of input supply sources, especially with respect to seeds, while introducing more competition

4. Enhance the accuracy and rapidity of transmission of price signals

5. Improve the supply response to price signals

6. To the extent possible, reduce asymmetric information flow to increase leverage of smaller suppliers

7. Enhance marketing options for smaller suppliers

8. Increase net returns to producers

9. Reduce price volatility back into the supply chain

10. Take handling and transaction costs out of the system

11. Move toward rules-based marketing and trade

12. Increase flexibility and liquidity in marketing

13. Increase effectiveness of contract enforcement mechanisms

Specific Purposes of Option 3:

1. Identify, target and reduce reliance on price or quantitative controls

2. Reduce usage of import/export permits or licenses

3. Identify and reduce State involvement in supply chains or international trading

4. Encourage, facilitate and guide the formation of producer or packer organizations as a means of lowering costs, and packer, processor or exporter organizations as a means of raising share or value chain

5. Build know-how and know-who of private agricultural organizations to increase their leverage in the marketplace as well as net returns

6. Establish regional market information system for all tradable crops and livestock, covering most markets and reporting both price and volume data

7. Establish comprehensive, trustworthy system for reporting/projecting on situation and outlook for selected products.

E. Detailed Description of the Agri-food Supply Chains Option

General Purposes of Option 4:

1. Select and fortify certain agricultural supply chains (whether single commodities or product groups, and whether intended for foreign markets or regional markets) as a means of rapidly increasing trade volume, value and net returns to suppliers

2. Selection would be based on criteria such as: numbers of source countries involved; extent of cross-border participation at different steps; current and potential economic significance; potential for expansion; susceptibility to upgrading; potential demonstration effects; level of interest among intended beneficiaries; fit with bilateral mission activities; numbers of actors involved; opportunities to add value

3. Use a continuing diagnostic analysis within each chain to identify impediments (whether resulting from low investment, low productivity, high transaction costs, inadequate quality control, non-conformity with the formal requirements of end-markets or with commercial specifications, etc), and then work to address them one by one

4. Use the same diagnostic analysis methodology to identify opportunities for innovation based on adding value, making better use of grades and standards, better verification and testing, certification, expansion of markets, etc.

5. Use supply chains as organizing principle for increasing, expanding or upgrading exportable supply via innovation and better vertical and cross-border organization of producers, input/service suppliers, processors, exporters

Specific Purposes of Option 4:

1. Identify and become intimately familiar with a limited number of high priority supply chains that fit the selection criteria and are amenable to REDSO intervention and support.

2. Identify critical problems and promising opportunities within those supply chains, then shape a proper response in the form of technical assistance and training in matters of: production, handling, processing or marketing; investment promotion; new enterprise formation; business strategy; industry organization

3. Use the problems and opportunities identified above as the basis for working with COMESA or other regional governmental entities, as well as with bilateral missions and other national governmental entities, and trade or agricultural organizations, to focus attention and make progress, particularly with respect to marketing, S&PS and G&S systems, to non-tariff trade barriers, and to transaction costs

4. In order to awaken stakeholders to new opportunities, establish and carry out a comprehensive program of consciousness-raising and training that aims at increasing

familiarity with opportunities for new markets, new products, value-added, and technological innovation, as well as requirements for market entry and market success relating to grades and standards, quality and food safety

F. Detailed Description of the Value-added Agriculture Option

General Purposes of Option 5:

1. Increase the overall and unit value of ESA's exportable supply of agricultural products

2. Increase net returns to suppliers at each level (e.g. producers, handlers, processors, exporters)

3. Increase the share of the value chain for exportable products that remains in the country of origin

4. Diversify and upgrade ESA's exportable supply of agriculture-based products, measured in terms of varieties, length of season, market window, presentations, forms, packaging, container type, transport mode

5. Where feasible, seek to differentiate ESA products in target markets

6. Work to increase the leverage of ESA suppliers in target markets by enhancing competitive advantage

Specific Purposes of Option 5:

1. Create a detailed inventory of products currently being exported from within the ESA region, identifying them by source area, commodity type, principal varieties, seasonality, typical presentation, grades and standards used, and principal target markets.

2. With that inventory in mind, do a rapid reconnaissance assessment of the main markets within ESA, in the EU and anywhere else they may be shipped in reasonable volume, examining competing products and meeting with buyers in an effort to identify competitive advantages and disadvantages of ESA products as presently offered.

3. Taking into account best practices from more successful global food suppliers, as well as the whole range of technologies, inputs, equipment and materials already available and tested elsewhere, identify opportunities for constructive, profitable innovation that would add value to and enhance the competitiveness of ESA products.

4. Based on the resulting long list of promising innovations, confer with a representative sample of players in each relevant productive chain to assess their interest in the proposed interventions.

5. In those cases where a match is found between perceived opportunity and interest among project beneficiaries, introduce, support and pilot test the value-added innovation.

6. For whichever pilot tests prove successful, develop a roll-out strategy and action plan to expand the use of the innovation by cooperating suppliers, and as soon as feasible, to replicate its application among other suppliers.

7. Repeat the above process for as many innovations as resources may allow.

G. Detailed Description of the Agri-Trade Development Center Option

General Purposes of Option 6:

1. Facilitate and support the supply response to opportunities that arise with regional integration and globalization of trade

2. Serve as an export catalyst for agribusiness throughout the region

3. Develop and offer a one-stop shop capability in support of agricultural trade from the region, including: mentoring; information; analysis; assistance in obtaining financing; technical and marketing advice

4. Increase the rate of business formation among export-oriented agro-enterprises

5. Guide selected enterprises through the business life cycle, thereby increasing the probability and rate of success

6. In general, work to enhance the international competitiveness of assisted enterprises in their chosen products, markets and service areas

7. Complement bilateral mission projects and national capabilities with more specialized expertise in key topics such as organic agriculture, biotechnology, post-harvest physiology and handling, quality assurance, food processing technology, food safety, cooling and refrigeration, packing and packaging, food marketing.

Specific Purposes of Option 6:

1. Raise the general level of awareness within the region of agri-trade's on-going and potential contribution to economic growth, poverty reduction and food security

2. Among stakeholders, increase understanding of agricultural trade opportunities, keys to success, lessons learned, best practices and sources of additional assistance

3. Unify and centralize (in actuality or virtually through linkages) all information, data, publications, and services relevant to agricultural trade, making them accessible to interested users via phone, fax, computer or Internet access, as well as via walk-ins and outreach activities

4. For prospective agro-export entrepreneurs and enterprises, play the role of mentor and general advisor, helping to shape business concepts and strategies, conduct market analyses or studies, prepare pre-feasibility and feasibility studies, develop a business plan, seek equity and debt funding, choose technologies and equipment, and get the enterprise started in the right direction

5. For recently started enterprises, aside from general business counseling, offer specific technical and marketing assistance, customized to match the needs of that enterprise at that moment in time

6. For more mature businesses, offer much more specific technical and marketing assistance, once again customized

7. For agro-export enterprises at all stages of evolution, provide trouble-shooting advice and assistance, in an effort to forestall unnecessary business failure.

8. Aside from firm-specific assistance, develop and deliver across the region a series of seminars and workshops designed to cover the business development process as it relates to export-oriented agro-enterprise, as well as selected technologies, products and markets

9. As appropriate, arrange for visits to the region by buyers, suppliers of technology or inputs, regulators and/or successful entrepreneurs willing to share their experiences

10. As appropriate, arrange for observational visits by client entrepreneurs to target markets and industry expositions or trade fairs

11. Complement the service menu of already existing Agribusiness Development Centers

12. Link centers of excellence together across the region into a network

H. Detailed Description of the Enterprise-led Initiatives Option

General Purposes of Option 7:

1. Achieve a rapid increase in the volume, value, diversity and value-added content of agricultural products traded within and beyond the ESA region

2. Provide impetus and excitement to the agri-trade sub-sector in the hope of inducing greater domestic and foreign investment and facilitating support by governments and donors

3. Use the "early adopter" approach to pave the way for other entrants into particular product or market niches, by demonstrating that it can be done and by using them as the "point of the lance" to remove barriers to entry

4. Lay the foundation for (the equivalent of) industrial clusters to form in the agro-enterprise arena, generating economies of scale and location that will reduce the cost of training, technology acquisition, and transport, while encouraging the arrival or expansion of supporting business that provide inputs, equipment or ancillary services, and attracting first visits, then sourcing and eventually co-investment on the part of importers or buyers

Specific Purposes of Option 7:

1. Given experience to date within ESA, as well as prior knowledge of worldwide supply and demand trends, competition and technological change, identify the most promising export deals (product + source area + end-market) for the region.

2. Within those deals, identify leading actors at all levels of the corresponding supply chains, and become thoroughly familiar with the keys to success and problems inherent in each deal.

3. For a reasonable number of promising deals, define a strategy of intervention and support that seeks to address both problems and opportunities, mainly as perceived by the "channel captains" (firms that are viewed as the leaders by local competitors and by foreign customers), but with additional insight from the technical assistance team based on its accumulated experience, knowledge and contacts.

4. Reconfirm that the leading enterprise(s) in a given deal would like assistance, then customize the deal-oriented strategy to fit their particular circumstances.

5. Once the strategy has been executed, capture (non-proprietary) lessons learned that can be transmitted to other, less capable players, disseminate the lessons, and then work with a second round of enterprises that may also be exporting already, or be nearly export-ready.

6. Disseminate the results obtained and impact seen to other interested parties such as COMESA and IGAD, trade and investment promotion agencies, other donors and their projects, so as to generate interest and further support.

I. Detailed Description of the Market-led Initiatives Option

General Purposes of Option 8:

1. Generate new agricultural-trade related exports for the ESA region by carrying out the new business development function as if the region were an enterprise

2. For selected deals, play the roles of analyst, scout, catalyst, broker, facilitator and technical/marketing advisor

3. Work very closely with the various deals to be able to identify and then alleviate constraints, with a view toward making it easier for other supply enterprises to either take over or join in over time

4. Where appropriate, use the deals as seeds with which to give birth to new commercial relationships and new industries

Specific Purposes of Option 8:

1. Based on a general understanding of what products are currently available in the region, when they are available and which markets they are moving toward, do a complete study of the trends in those marketplaces, consumer and buyer preferences, the state of competition, marketing margins, channels of distribution and alternative ways to penetrate and succeed.

2. With these market assessments in hand, go back to the region to meet with focus groups composed of individual enterprises engaged in that particular product or market segment, as well as (when available) representatives from exporter associations that support the particular industry.

3. Taking into account both the supply and the market situation, define new business opportunities that might work if the REDSO team is to play match-maker and the other roles mentioned above

4. Take the business concepts back to relevant buyers to verify and stimulate interest, then do the same with some potential suppliers.

5. If the fit seems right, bring the parties together by acting as a friendly broker, and make sure the details are hammered out to mutual satisfaction.

6. If so, then work with both sides on an implementation strategy and action plan that will fit the situation, and proceed.

7. Stay with the deal for at least one full season, intervening and fine-tuning as necessary.

8. Follow the same methodology with others deals, either sequentially or in parallel.

J. Detailed Description of the Trade Corridor/Triangle Option

General Purposes of Option 9:

1. Select and fortify already existing corridors or triangles (whether wholly or partly within the ESA regions) involving multiple countries and usually multiple products, as a means of rapidly increasing trade volume, value and net returns to suppliers

2. Selection would be based on criteria such as: number and coherence of the source countries involved; numbers and traits of cooperators; extent and formal/informal nature of cross-border trade already occurring; current and potential economic significance; prospects for expansion; susceptibility to upgrading; potential demonstration effects; level of interest among intended beneficiaries; fit with bilateral mission activities; opportunities to add value

3. Use a continuing diagnostic analysis on each commodity and each link in the chains to identify impediments (whether resulting from low investment, low productivity, high transaction costs, inadequate quality control, etc) and then work to address them one by one

4. Use the same diagnostic analysis methodology to identify opportunities for innovation based on improving the transport services or routes, improving border conditions or procedures, introducing grades and standards, improving market information, increasing volumes flowing through, expanding end-markets, etc

5. Engage groups of players, informal networks and/or associations to lead in the removal of impediments, the reduction of transaction costs and time, and the expansion of trade

Specific Purposes of Option 9:

1. Identify and become intimately familiar with a limited number of trade corridors and/or triangles that fit the selection criteria and are amenable to REDSO intervention and support

2. Identify critical problems and promising opportunities within the commodities and supply chains operating within those corridors or triangles, then shape a proper response in the form of technical assistance and training in matters of: production, handling, processing or marketing; investment promotion; or industry organization

3. Use the problems and opportunities identified above as the basis for working with COMESA or other regional governmental entities, as well as with bilateral missions and other national governmental entities, and trade or agricultural organizations, to focus

attention and make progress, particularly with respect to marketing, S&PS and G&S systems, to non-tariff trade barriers, and to transaction costs

4. In order to awaken stakeholders to new opportunities, establish and carry out a comprehensive program of consciousness-raising and training that aims at increasing familiarity with opportunities for new markets, new products, value-added, and technological innovation, as well as requirements for market entry and market success relating to grades and standards, quality and food safety

The Consulting Team recognized that there are advantages and disadvantages in each of these options, and that ultimately, the programming decision might well be a mix of these nine options. It was decided to present all nine to participants in the Stakeholder Workshop, so that they could discuss pros and cons, costs and benefits, risks and rewards, and hopefully reach a consensus on a proper hybrid.

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Section VIII

The Stakeholder Workshop

The 2.5 day Stakeholder Workshop was held at the Safari Park Hotel in Nairobi between January 29th and February 1st of 2001. The agenda is enclosed as Annex Four. More than fifty people attended, representing a mixture of decision-makers from regional bodies like COMESA, national agencies, regional and bilateral USAID missions, NGOs and private companies. A full list of attendees is presented as Annex Five.

A. Overall Process

As the agenda indicates, the workshop opened with remarks given by USAID/REDSO Director Steve Wisecarver, who thanked all participants for devoting their time to what was intended as a participatory strategy-setting exercise, of great importance to REDSO programming.

This was followed by a brief introduction done by Dr. Diana Putman, Chief of the Food Security Team at REDSO, who explained that the regional mission had three strategic objectives for the 2001-2005 strategic planning period:

- **SO5: Enhanced African Capacity to Achieve Regional Food Security**
- **SO6: Enhanced Capacity for Managing Conflict in the Region**
- **SO7: Enhanced Capacity to Improve Health Systems**

Dr. Putman went on to say that the objective of the workshop was to move toward a general consensus regarding the best strategic options for achieving SO5, using (intra- and extra-) regional agricultural trade development as the main vehicle. She also explained that whatever option(s) might be preferred by the group would be incorporated into the final design of a discrete development activity or project that would probably result in an institutional contract later in the year 2002. Such an activity or project would not be the only thing REDSO would support during this five-year period, since REDSO intended to continue providing support to bilateral missions, to use other mechanisms to pursue SO5 as well, and to pursue other activities in support of SO6 and SO7.

The rest of the morning and early afternoon of the first workshop day were devoted to several PowerPoint presentations from the Consulting Team, copies of which comprise Annex Six. In essence, these presentations summarized the results of the literature review, analyzed lessons learned elsewhere, reported findings from the field interviews, defined the development challenges facing the region, and identified nine fairly distinct strategic options for a REDSO-supported regional agricultural trade development strategy aimed at enhancing food security. The details of each of these pieces of the puzzle were presented earlier in this report.

In the afternoon of the first day, a general discussion of these nine options was held, both to clarify the ideas and to begin the "scoping down" process. While participants found merit in all nine options, they felt that some were less desirable than others. Negative opinions were most often based on concerns about whether a given option...

...played to perceived comparative advantages of REDSO,
...might better be carried out by bilateral USAIDs,
...might duplicate activities of other development donors,
...would really have any direct impact on food insecurity,
...would have an impact on regional capacity to enhance food security,
...would have measurable results in terms of agricultural trade volume or value,
...might favor growth at the expense of equity,
...might be too cross-sectoral to have an impact on agricultural trade,
...might not be targeted enough to attract private sector involvement,
...could require more resources than REDSO might be able to mobilize.

A voice vote on the least desirable options led the overall group to conclude that the following options should not be emphasized:

- X **Option 6:** **Agri-trade Development Center**
- X **Option 7:** **Enterprise-led Initiative**
- X **Option 8:** **Market-led Initiative**

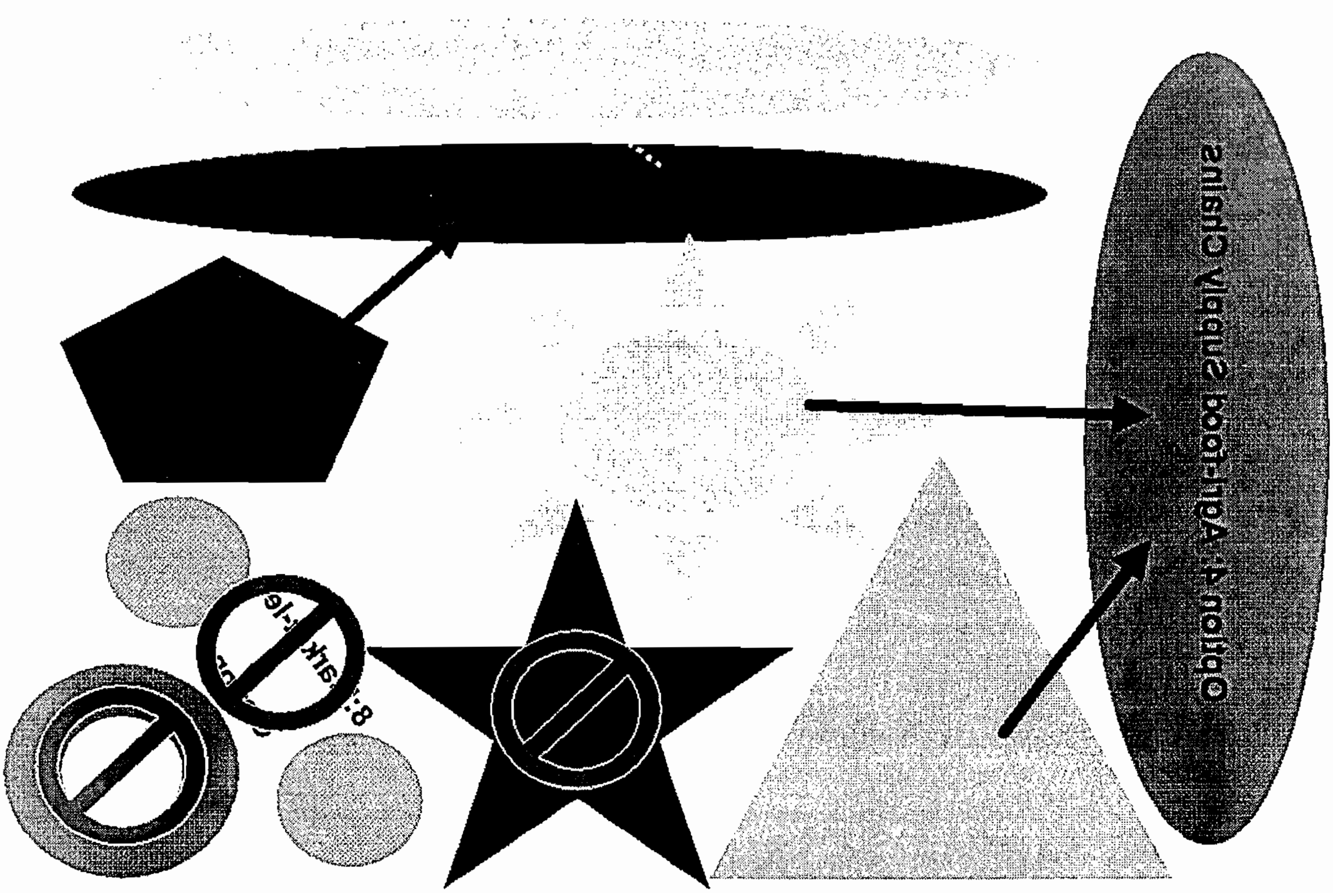
However, some members of the group perceived that the approach or interventions implicit in each of these discarded options could still be incorporated in the other options. For instance, the establishment of a physical Agri-trade Development Center could fall under Option 2 (Agricultural Trade Facilitation), as well as other options. Supporting "Winning Enterprises" as suggested in Option 7 or seeking out new deals as implied in Option 8 might well be part of either Option 4 (Agri-food Supply Chains), Option 5 (Value-Added Agriculture) or Option 9 (Trade Corridors and Triangles).

Similarly, the group felt that several of the remaining six options could be further condensed. Work on Market Institutions suggested under Option 3 could be folded into Option 2 (Agricultural Trade Facilitation). The search for additional value-added suggested in Option 5 could be folded into the Vertical Supply Chain approach suggested as Option 4. The enhancement of trade corridors or triangles under Option 9 would actually require the same supply chain approach suggested as Option 4.

Figure 10 on the following page portrays in graphic form the initial consensus reached at the end of the first day of the Stakeholder Workshop, based on full and open discussion of the nine options.

Figure 10

CONDENSED VIEW OF STRATEGY OPTIONS FOR A REGIONAL AGRICULTURAL TRADE PROGRAM RESULTING FROM THE WORKSHOP



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B. The Breakout Groups

Early on the second day of the workshop, in order to allow more detailed discussion in break-out groups, the plenary session agreed to re-define the three remaining options as follows:

- Option A: Regional Trade Integration (with an emphasis on enhanced capacity to achieve food security)
- Option B: Agri-food Supply Chain Development (with an emphasis on concrete results in terms of export volume and value)
- Option C: Regional Agricultural Trade Facilitation (with a balance between enhanced food security and tangible export results)

One of the options was then assigned to each breakout group (named A, B, or C to match the option to be analyzed). Each team was charged with designing a five-year strategy within assumed resource constraints, identifying priority components, intended results, areas of assistance that REDSO could provide, resource requirements, and typical indicators of results. It was hoped that the findings of each breakout group would provide the key elements of alternate programs for REDSO.

The three teams worked on their mandate for an entire day (January 31, 2002) and presented their findings at the plenary session on February 1. These were the key conclusions of each team:

Team A: Regional Trade Integration (with an emphasis on enhanced capacity to achieve food security)

The team presented its design of a program called the *Regional Trade Expansion Project.* The mission of the project was to advance the overall integration process in the region so as to create the most favorable environment for broad trade expansion, including but not limited to agricultural trade.

The group took a broad view of what needed to be accomplished to promote trade expansion and the actions that REDSO could consider. The Regional Trade Expansion Project would not have agricultural trade as its sole focus, although it was agreed that agriculture would be by far the largest beneficiary of such a project.

Actions to be taken:

1. Development of effective public-private dialogue to promote integration.

The group's opinion was that private sector involvement in the integration process is largely undeveloped and that its representation in international negotiation such as COMESA has been only 'token' representation. Given the fact that it is the private sector that largely drives trade expansion, a strong substantive dialogue with public authorities is essential.

2. Development of private sector institutions

To achieve this dialogue, the private institutions have to be developed. Throughout Africa, these institutions remain weak and unfocused. The catalysts for creating and sustaining such institutions have been missing. Work within key sectors across regional boundaries needs to be undertaken to organize these bodies around an agenda that is in the self-interest of these associations and their members.

3. Elimination of non-tariff barriers

NTBs continue to act as barriers to expanded trade in the region. Some of these barriers have technically been dismantled, but in practice remain in force. Others still remain to be acted on at the inter-governmental level. Procedures still require harmonization and access to markets must be improved. REDSO has a natural role to play in the process

4. Reductions in transactions costs.

As serious as NTBs, regional trade is burdened by heavy transactions costs. The largest of these costs appears to be related to the cost of transporting goods across borders. The group saw an important role for REDSO to analyze these costs and propose actions for reducing them. Similarly border delays due to documentation and clearance issues were seen as major contributors to high transactions costs as well, particularly when related to perishable goods.

5. Establishment and harmonization of trade rules

There is very significant work remaining to be done to dismantle barriers and harmonize regulations throughout the region. This is especially true of grades and standards, sanitary and phytosanitary standards and certifications, intellectual property, insurance regulations, etc.

6. Development of market institutions

The lack of efficient, functioning market institutions impedes regional trade significantly. The group recommended looking more closely at REDSO's role in developing and integrating market information systems, opening marketing mechanisms such as regional commodity exchanges or auctions, and supporting new marketing tools such as bonded warehouses coupled with warehouse receipts needed to provide producers with liquidity while awaiting more favorable prices.

7. *International trade frameworks/ agreements*

The group concurred that the heart of the process remains international trade agreements. Work remains to be done to increase understanding of WTO and the regional FTA agreements. There is only weak comprehension of these key agreements and how to take advantage of them. As a result, compliance with these agreements is lacking and must be made a priority. Part of the problem is the weak capacity of institutions like COMESA, IGAD, and EAC. Capacity-building remains a requirement.

Priority Action Areas for REDSO:

Given the complexity and number of actions that could be taken, the task for the team was to prioritize these categories for REDSO's future program. The team agreed to the following areas of emphasis for REDSO's regional agricultural trade program:

- Developing strong public-private sector dialogue and the institutions in the private sector that can undertake this dialogue
- Establishment and harmonization of trade-related systems and rules within the region
- Continuing the implementation of free trade arrangements and improving compliance

Team B: Agri-food Supply Chain Development (with an emphasis on concrete results in terms of export volume and value)

Team B, which developed a program called *Africa Agriculture Export Initiative,* focused on the development of product or commodity-specific initiatives that could serve to stimulate trade in key commodities that contribute to food security for the region. Food security was defined in the group as not only 'availability' of basic food commodities but also 'access' to food through higher rural incomes for producers. Hence, the focus was heavily on food commodities that have a clear and growing market, regionally and internationally, that can bring in an every-wider spectrum of producers.

The *Africa Agriculture Export Initiative* was viewed by the group as heavily private sector driven. Developing strong linkages between all parts of the supply chain would be essential to organize the initiative. Hence, selection of product areas to work with would depend in part on the feasibility of bringing together these various components.

Product selection process:

The selection of promising sectors that would meet the overall food security goals of REDSO would have to be based on the evaluation criteria. The team produced a long list of potential criteria, which included the following:

- Importance of the product area to rural incomes and the alleviation of poverty and hunger
- Significance of strong markets for these commodities, both regionally and externally.
- Number of source countries benefiting from these products
- Presence of an active internal organization in the sector, such as producer, processor, and trading associations
- High level of stakeholder involvement and private sector interest in the sector
- Capacity for increases in value added to these products
- Engagement of supporting organizations in these sectors (e.g., COMESA, IGAD, IBAR)
- Ease of implementation of the initiative

Once specific sectors have been selected and the principal public sector stakeholders (e.g., bilateral USAID missions, other donors, and international governmental organizations) have been identified, a series of steps would have to be undertaken:

- Closely analyze the supply chain of the product areas from farm producer to end consumer to identify the linkages.
- Identify the major participants needed to make the initiative a success, such as producer and processor associations, traders, quality and health certifiers, transporters, financial sources, etc.
- Identify some key target markets for the sector, ranging from traditional cross-border consumers to foreign markets (e.g., AGOA for cotton textiles, Middle East for livestock, Europe for non-traditional products and horticulture).
- Commodity research to determine customer requirements from these markets
- Development of associations within the sector both to mobilize producers and processors as well as to lobby for removal of barriers
- Development of tailored information programs for the sector, both in terms of content of messages as well as the media to be used to reach producers
- Recommendations for grades and standards and SPS appropriate for the product and their markets
- Technological innovation and product development aimed at improving quality, diversifying products, and adding value.

Priority Product Sectors:

Based on the above criteria, five illustrative sub-sectors or broad commodity groups were tentatively chosen, each one meriting further analysis:

- Livestock and meat products
- Cotton, textiles, and apparel
- Roots and tubers
- Legumes
- Horticulture

It was understood by all, however, that final selection of priorities would have to occur during an initial phase of project implementation, taking into account the level of interest elicited from bilateral USAIDs and other direct or indirect stakeholders.

Principal partners:

The team identified the major public sector/NGO partners of these initiatives as:

1. International governmental organizations and NGOs:

    - OAU/IBAR
    - ASARECA
    - IGAD
    - EAC
    - CGIAR
    - COMESA

2. Regional associations (producers, processors, traders, manufacturers, etc)
3. Broker associations
4. Importer organizations
5. International professional associations
6. Leading private sector companies

Resource requirements for these initiatives:

The team concluded that REDSO's principal role under this option would be to assist in the organization of the initiatives and to provide key technical assistance. The areas of technical assistance most likely to be needed included the following:

- Commodity specialists
- Marketing specialists
- Association development specialists
- Lobbying/advocacy specialists
- Grades and Standards/SPS experts
- Product quality specialists

Team C: Agricultural Trade Facilitation (with a balance between enhanced food security and tangible export results)

Team C, which named its initiative the *Regional Agricultural Trade Expansion (RATE)* project, focused on issues relating specifically to the facilitation of trade in agricultural commodities.

The team identified three major thrusts in its design:

- Harmonization of regional agricultural trade policies and regulations
- Strengthening of regional information systems and institutions
- Creation and/or strengthening of private sector associations

Components of these activity areas would include:

> *Policy and regulatory issues related to agricultural trade*

- Harmonization of trade policies and regulations
- Harmonization of cross border trading procedures such as customs documentation, inspections, clearing procedures)
- Strengthening regional institutions to monitor FTA compliance
- Harmonization of grades and standards for regional trade

> *Development of market information systems and implementing institutions*

- Analyze/disseminate trade information, including FTA monitoring
- Establish or strengthen market information systems
- Assist the development of marketing institutions such as regional commodity exchanges and private auctions
- Support women business networks
- Disseminate information on sources of finance

> Development of private sector trade associations

- Capacity building to enable them to address cross border trade constraints
- Empowering associations to effectively lobby with international organizations to represent private sector viewpoints.
- Working with private sector associations to promote implementation of harmonized policies

After the three presentations (see annex 7), the Consulting Team highlighted the commonalities and differences between the three approaches as defined by the break0out groups. These can be summarized as follows:

Commonalities

- A perceived need to work on awareness of free trade issues (liberalization, free trade, reduction of tariff and non-tariff barriers)
- A perceived need to continue focus on implementation, enforcement, monitoring
- Broad definition of stakeholders
- A perceived need to strengthen private sector and its voice in trade policies, frameworks, legislation, problem resolution
- Recognition of the importance of consulting with and working with all stakeholders to reach consensus and strengthen execution
- A perceived need to combine vertical (commodity-based) approach with horizontal (cross-cutting) approach
- Recognition that REDSO and the implementation team should continue to work closely with bilateral and other donors

Differences

- The degree of emphasis on products & markets
- Focus on structure versus conduct and performance
- The extent of a tangible, clear connection to ag trade and by extension to food security
- The degree of engagement with private sector
- Emphasis on process versus product
- The amount of involvement with regional institutions versus national entities

Considerable discussion of the pros and cons of each approach ensued in plenary session. While the intent had been to come to closure, by the end of the session it had become clear that there was validity to all three approaches, so the final decision would depend on: (1) what USAID/REDSO considered to be the best fit with the rest of its programming options and (2) availability of resources. These two considerations could either mean that a single hybrid would be created, or that two or more projects might be formulated to cover the whole range of development interventions and support that the groups had deemed desirable.

C. Program Concept for Regional Agricultural Trade Expansion Strategy (RATES)

1. Desired Characteristics

After the workshop had concluded, REDSO staff and the Consultant Team met again separately to review the state of play and move toward closure. Agreement was reached on certain key points:

- REDSO's program should be sufficiently flexible to respond to a range of regional trade facilitation needs as well as to support product or commodity-specific trade initiatives.

- REDSO's primary focus has been and should remain both regional and support-oriented. For those reasons the new program should integrate a series of tasks, participants, and countries aimed at promoting regional trade, while leveraging the participation and resources of key parties.

- The program should take a leadership role in the development of specific regional trade initiatives, yet also be in a position to respond to existing or proposed programs of bilateral USAID missions and other partners.

- Given the limited funds available to REDSO, the program should seek maximum buy-in from other organizations and funding sources. This buy-in should include active participation by these groups as well as additional resources to support these initiatives.

- The program should be scalable to accommodate the possibility of a substantial increase in available resources arising from the African Agriculture Initiative.

- REDSO needs to contribute to the strengthening of public-private sector dialogue and interaction around trade issues, which are generally weak throughout Africa. Regional business or trade associations are nascent at best and need strengthening.

- Support also needs to be given to advocacy, lobbying, public relations and marketing of innovative ideas. As a result of current weakness in these areas, agreed-upon policies at the regional level often do not get implemented at the national level.

- REDSO should not try to force all on-going or future agricultural trade-related activities into a single comprehensive program, but rather consider three separate programs, each with a distinct identify but also a mandate to coordinate and collaborate with the others. Tentatively, they were defined as: (1) Regional Trade Integration; (2) Regional Agriculture Trade Expansion Strategy (RATES); and (3) Regional Agricultural Research/Production Support. RATES would be the culmination of the on-going scoping down process in support of agricultural trade.

2. The Grand Lines of the RATES Program

Development literature and experience in the region and elsewhere suggests that it is difficult to achieve the desired increases in agricultural trade volume, value and value-added without concentrating at least some support on particular commodities. Vertical involvement in designated industries or commodity chains also make its possible to tackle barriers to trade of a broader nature, both because of the experiential learning that takes place and because of the private sector involvement that vertical activities tend to attract.

On the other hand, even within the agricultural sector alone there are structural concerns that are not specific to a single commodity or commodity cluster but which either reduce the efficiency or transparency of trading itself or reduce competitiveness in a global marketplace. These agriculture-specific cross-cutting concerns include such topics as grades and standards, sanitary and phytosanitary regulations, marketing institutions, agricultural transport, and intellectual property rights (e.g. plant variety protection, genetically-modified organisms).

Both for commodities and topics such as those mentioned, it was the sense of the Consulting Team and REDSO counterparts within the Food Security Team that these challenges were best addressed through highly targeted development interventions, each with its own set of resources.

On the other hand, the workshop also led to a consensus that private sector involvement in the formulation of trade policy needed to be fortified, that private association development was a crucial pre-condition to better private-public dialogue, that market-related information needed to be more readily available, that non-tariff trade barriers still had to be addressed and so on. These are all broader issues, not specific to any commodity chain or technical topic, yet essential to and very complementary to vertical industry development. To address them would require on-going attention that could not be dependent on a specific sub-project.

In order to respond to both kinds of needs, a hub-and-satellite approach may make sense. In effect, the satellites would be commodity- or topic-specific projects or activities of the kind mentioned above. The hub would be a specialized central service center intended to support the interventions to be undertaken by the satellite projects. The driving force behind the composition and actions of the hub would be the satellite projects and commonalities that cut across them. [However, as time and resources permit, the hub could also undertake broader trade facilitation activities, working at inter-governmental organization level (i.e. with COMESA, IGAD, EAC, IBAR, etc.)].

The hub would probably consist of a limited core of long-term technical assistance (TA) personnel backed up by very specialized short term expertise that will work to support the more technically-based satellite activities.

Working together, the hub-and-satellite effort should strive to connect and streamline vertical supply chains that enable trade to take place for selected commodities and products that the RATES program will focus on. The exact mix of interventions and tasks will need to be customized to match the requirements of the commodity chain in question as well as the status and needs of the countries (or regional areas) that want to be involved in further developing that chain.

For instance, should a decision be made to focus on livestock as a commodity it would be expected that the satellite would consist of a very specific program of interventions to achieve results. These might include: harmonization and application of livestock health requirements for movement of animals within and outside of the region; putting into place an acceptable inspection/certification system; organization of producers and traders; establishment of a regional African/Arab Livestock Commission that would connect suppliers and buyers; identification and expansion of market opportunities, resulting in increased trade of livestock.

The hub would be prepared to provide TA in a range of areas that are not unique to increased livestock trade but also applicable to other commodities or products. These could include: association development, strengthening the capacity of the private sector to lobby national governments and inter-regional organizations (IGOs) to enact the necessary institutional and policy changes to promote livestock trade, to conduct specialized analyses, or to assist stakeholders within IGOs or the private sector to interpret and determine how to conform to broader trade regulations.

The rationale behind the satellite projects driving the hub approach lies in the assumption that encapsulated projects (whether commodity specific or issue-oriented) offer the following advantages:

- Efficient utilization of technical expertise across a broad range of activities.
- Possibility to expand/downsize projects to meet funding allocations without compromising levels and quality of services.
- Spillover to other commodities and/or topics (i.e. establishment of an inspection/certification system for livestock will provide significant lessons in establishing a system for other commodities).
- Ability to work at a number of different levels (regional commodity-specific associations, regional trade associations, inter governmental organizations).

Jointly, the hub and satellite approach should provide a framework for cooperation as well as mechanisms that can directly affect agricultural trade and build capacity in the region. In addition, the hub and satellite approach should ensure efficient access to high quality technical support to address the most pressing constraints to increasing agricultural trade for selected commodities, issues and geographical regions.

RATES as a whole will endeavor to improve coherence and coordination among the various projects and investments aimed at increasing agricultural trade. This will be achieved through coordination of regional trade activities, building partnerships across national boundaries and interest groups, and improving the knowledge available on the opportunities and priorities of agricultural trade. The approach will facilitate efficiency in delivering trade-related services. It will facilitate the sharing of knowledge, experience and best practices across product areas, countries and partners.

a. Potential Satellite Activities:

The RATES Program could provide an over-arching strategic umbrella for a number of specific activities throughout the region. These activities might be undertaken directly by the contractor selected to manage the hub or be undertaken through alternative mechanisms--for instance, through agreements with other organizations on the basis of solicited or unsolicited proposals. These activities might focus on specific product areas in defined geographical regions, such as:

- livestock exports from the Horn of Africa to the Middle East,
- cotton/textile/apparel exports from Eastern Africa,
- root, tubers and legumes from Eastern and Southern Africa,
- horticulture from Southern Africa.

Alternatively, they might focus on specific cross-cutting issues critical for improving regional trade flows, such as:

- advancement of sanitary and phytosanitary inspection and certification procedures,
- transportation issues,
- grades and standards for tradable commodities

As mentioned earlier, the workshop break-out group that considered vertical industry initiatives identified a large list of criteria that could be used in choosing product sectors. These range from high value products of interest to several USAID-assisted countries, to others expected to have a substantial impact on rural incomes and jobs. Alternatively, cross-cutting criteria could be used, such as the importance of a given impediment as a non-tariff trade barrier, or potential impact on women in agriculture. The Africa Bureau in the design of the Africa Agricultural Initiative has also identified a number of criteria that might be considered in designing RATES-supported efforts. REDSO will need to review all these criteria and determine which are most appropriate in order to achieve results under SO5. For any activity being considered for support under the RATES program, background analysis and/or additional design work may have to be undertaken before a final decision is made.

An identification of the appropriate stakeholders for each activity will also need to occur. Since RATES is intended to promote and facilitate trade, which is an economic activity, the stakeholders will mainly be the "economic actors" who take invest their own resources and take risks in the expectation of profit. These will usually include a mix of input and service suppliers, producers, handlers, processors, traders and exporters. Nevertheless, for all activities there will still be a need to engage with and even strengthen the capacity of IGOs or NGOs to be responsive to the needs of the direct participants in a given vertical industry or product cluster.

Both to identify stakeholders and to define potential interventions, either the TA team or proponents of a given satellite-type project will need to carefully analyze the supply and value chains for the commodity or product of interest. *(It should be noted that REDSO is not proposing to undertake activities at all levels of the supply/consumption chain. Many activities will fall within the mandate of bilateral missions).* Typically the analysis will require:

- Defining each link in the supply chain, as well as branches that may shoot off from it toward different end-markets
- Defining the role and functions performed by each link, and the corresponding value added
- Identifying key players that work with these links along the entirety of the supply chain. These could include, but are not limited to:
    - producer associations
    - trader associations
    - transport associations
    - manufacturing associations
    - NGOs
    - Commodity or livestock brokers
    - Inter-governmental organizations (COMESA,EAC, IGAD, IBAR)
    - Bilateral USAID missions
    - Importer groups in target markets
    - International professional organizations
    - Private health and certification laboratories and inspection services

- Identifying supporting players and networks to be engaged in the initiative
- Identifying principal leaders in the sector that can drive the initiative
- Devising information management systems (for collection, management and dissemination) that can support the production, processing and marketing initiatives
- Overseeing development of technologies, including biotechnology, which can add value to products and help them meet required standards.
- Examining grades and standards development and harmonization
- Identifying the main constraints that need to be urgently addressed
- Undertaking commodity specific research to determine product requirements
- Doing market research to identify customer requirements
- Developing market opportunities
- Examining transportation requirements
- Developing new products and value addition to these products

In response to specific need areas in regional agricultural trade, RATES might launch projects that are issue-based that will affect trade for a range of commodities. As in the case of product initiatives, RATES would first identify the stakeholders that would need to be involved to address these issues or barriers effectively. Action plans would be formulated by RATES and needed technical expertise would defined.

Examples of issue-based initiatives focusing specifically on agricultural products might include:

- Developing grades and standards/ sanitary and phytosanitary certifications
- Promotion of new market institutions, such as exchanges and auction systems
- Development of FTA monitoring systems
- Assistance in reducing specific transactions costs
- Assessment of infrastructure needs and proposed actions
- Analysis of specific non-tariff barriers
- Support of association strengthening within the sector
- Development of price, market, and quality control information systems to assist producers and processors alike.
- Development of specific advocacy skills to address critical needs of the sector

In designing the projects, there will be a need to identify what core TA is required on a long-term and short-term basis. The potential long-term expertise might include any or all of the following:

- Specialists in selected sub-sectors such as livestock/meat/dairy, horticulture or food processing
- Commodity experts in specific crops or livestock products selected for satellite projects
- Experts in critical themes such as food safety regulations, grades and standards, or market information

Short-term expertise is likely to be needed in more specific fields, for example:

- Integrated pest management
- EU food regulations.....
- Organic certification......
- Refrigerated transport
- Warehouse receipts systems
- Packaging
- Quality assurance

b. Hub Activities

The hub of the RATES program would act as a support services center for the commodity/product or issues specific satellites. The principal categories of activities might include the following:

- Analytical support
- Association and organization development
- Advocacy/lobbying
- Networking development
- Information collection, management and dissemination

Elements of assistance in these areas could include (but is not limited to) the following:

Analytical Support

- Analyses that are either commodity or issue-specific

Association development

- Build capacity of regional trade organizations to address regional trade constraints.
- Develop capacity of these organizations to represent their members' viewpoints on important policy and regulatory issues.
- Develop management, membership expansion, and fund-raising capacity of these groups to help sustain their activities.

Advocacy/Lobbying:

- Support of institutions that can monitor adherence to trade rules.
- Improve access to policy information for private sector organizations.
- Undertake to improve access of private organizations to regional policy discussions.
- Capacity building within private sector groups to represent effectively their viewpoints to public sector and international institutions.
- Assistance to IGOs to lobby their member state governments, the private sector and ordinary citizens on the benefits of regional trade.

Network development:

- Network national trade organizations to work together regionally to open up new markets and improve quality standards required by these markets as well as to seek means to reduce burdensome transactions costs.
- Facilitate public-private sector dialogue on key issues of mutual concern.

Information Collection, Dissemination and Management

- Identify critical information needs for specific stakeholders in the region.
- Develop a strategy to manage and disseminate information.
- Expand use of and capacity of stakeholders to use modern ICTs.

In designing the hub, there will be a need to identify what core TA is required on a long-term and short-term basis. The potential long-term expertise might include the following:

- Association/organization development specialists
- Trade policy analysts/trade specialists
- Specialists in lobbying and advocacy training
- Information management specialist

Potential short-term expertise might include the following:

- Customs administration
- Road transport
- Grades and standards
- Exchange rate policy
- Food safety regulation
- Commodity exchanges

3. Next Steps

Consistent with the participatory approach to strategy formulation employed during the fieldwork and workshop, the next step in designing RATES should probably be another round of consultation, especially with bilateral USAID missions but also with other key stakeholders, concerning both the concept outlined above and specific commodity chains to be targeted. Once that process has been completed, a final design should be possible.

(This concludes the body of the report. Annexes follow.)

ANNEXES

Annex One: Statement of Work

STATEMENT OF WORK FOR THE 2ND ANALYTICAL PIECE FOR THE DESIGN OF REDSO'S NEW TRADE DEVELOPMENT PROGRAM

1. Introduction

The Regional Economic Development Services Office for East and Southern Africa (REDSO/ESA) is the largest USAID field operation in Sub-Saharan Africa. The mission has mandates for designing and implementing regional programs, managing programs in key non-presence countries, and providing support services to bilateral USAID missions in 22 ESA countries.

Under the 2001 –2005 strategy approved in August 2000, REDSO/ESA has identified three strategic objectives (SO) to achieve its goal of "A healthy, food secure, and peaceful region". These are: SO5 - Enhanced African capacity to achieve food security; SO6- Enhanced capacity for managing conflict in the region; and SO7- Enhanced capacity to improve health systems.

The Food Security (FS) office of REDSO is charged with achieving SO5. The office consolidates the Mission's past activities in agriculture, environment, regional trade, economic growth, and famine early warning systems. The FS team developed a Results Framework with four intermediate results (IR) necessary for achieving enhanced regional capacity to achieve food security. These are: IR1- Regional institutions strengthened; IR2- Improved regional availability of appropriate technologies/practices; IR3- Increased networking and cooperation; and IR4-Selected policy, regulatory, and procedural changes advocated by African partners.

Whilst enhancing capacity is the main objective, the REDSO food security team has been challenged to show that this capacity enhancement achieves real food security results in terms of improving availability and/or access to food for the peoples of the ESA region. Another challenge is that the interventions the team undertakes have to be regional as opposed to national, i.e, they have to have a cross-border impact. REDSO/FS has identified agricultural trade development as an issue that directly contributes to food security and is clearly regional in nature and thus can be best addressed through regional programs/interventions. The team has, therefore, decided to design a comprehensive five-year regional agricultural trade development program that incorporates best practices and lessons learned from REDSO's past regional trade activities and addresses critical and emerging constraints to increased trade in the ESA region. The design work will be anchored on a thorough review and analysis of the current trade environment in the ESA region, past REDSO trade activities, and activities implemented by other development partners. Two synthesis/analytical pieces will be undertaken. The first will mainly layout a conceptual framework for increasing intra-regional trade within ESA based on both international trade theory and a review of REDSO's RTAA activities. The second synthesis piece is the subject of this scope of work and picks up from the first analytical piece. It will involve the review of all other past and on-going regional trade development activities within ESA supported by REDSO and other development partners, lay out future program options, and design a 3-5 year regional trade development program for REDSO based on the most preferred option.

2. Objective

The main objectives of this analytical work are to identify the current key constraints to regional trade development within the ESA region, the approaches and methodologies used by REDSO and other development partners in past trade development interventions to address these constraints, and design a new REDSO trade development program incorporating best practices and lessons learned from past experiences. The initial identification and prioritization of trade constraints is expected to come out of a synthesis study currently being undertaken by ARD under the RTAA IQC. The analytical work envisaged under this SOW will not duplicate this effort but rather review additional pieces/programs that are not covered by the ARD synthesis. The consultants/IQC will use the two pieces as an analytical base to design a trade development program that will enable REDSO to achieve results in 3-5years with the Mission's limited resources. The program should incorporate the three critical issues of: the **Policy and Institutional** environment for trade; the **Private sector's capacity to respond** to policy and institutional changes; and the region's capacity to **efficiently deliver trade facilitating services** such as grades and standards control, networking and information exchange, market information, dispute arbitration, trade finance etc.

3. Specific Tasks

The specific tasks under this task order will be performed in four phases.

Phase I including;

- Review of all trade related REDSO activities under the COMESA LSGA,
- Review the trade related activities under the HASP/IGAD programs,
- Review the ASARECA/ECAPAPA agr. trade policy harmonization activities
- Review AFR/SD and Global Bureau projects related to trade in the ESA region including the RECOTIS, Sustainable Tree Crops project, the ATRIP, EAGER, and Leland Initiatives and others,
- Review the OAU/IBAR program for livestock trade issues,
- Review, in collaboration with CDIE/DEC, the ESA bilateral mission activities that enhance trade and look at how REDSO can collaborate with these in her new program,
- Review current and proposed trade development activities supported by other key donors like the World Bank, African Development Bank, EEC, GTZ, and DFID to determine where REDSO can add value rather than duplicate activities. The

team will also explore and make suggestions on the best ways of coordinating these activities.

- Explore all other trade enhancing aspects, e.g trade financing, investment flows, arbitration, etc that are essential to the development of trade in the ESA.

Phase II will involve the preparation of a synthesis report on the effectiveness of the methods used in the activities reviewed in phase I.

Phase III. Using the recommendations of the ARD/RTAA synthesis report and the one prepared under this task order, the team will propose prioritized program options and facilitate stakeholder consultations to come out with the preferred program option(s). Such program options should articulate potential results to be obtained if REDSO gave the necessary support.

REDSO/ESA works very closely with regional organizations to achieve its objectives. Such organizations include COMESA, IGAD, EAC, OAU/IBAR, ASARECA, WIOMSA among others. The contractor must ensure that whatever program options s/he proposes are fully owned by these African organizations.

Phase IV. The team will then detail the preferred program option(s) and design a new 3-5 year Regional Trade Development Program for REDSO support.

4. Methodology

The methodology envisaged for this task order will mainly involve review of documents and interviews with various people involved in trade promotion in the ESA region. Since most of the partners are based within the region, it is anticipated that the consultants will spend more than two thirds of their contract time in the region. After the contractor has pulled together a prioritized report on program options, s/he will conduct stakeholder consultation workshop(s) to identify the best and/or most practicable program option for REDSO.

5. Deliverables

The deliverables for this task order are tied to the four phases listed under 3 above. These will include a synthesis report after phase II, a draft report giving prioritized program options for phase III, a stakeholder consultation workshop, and a final design of a trade development program after phase IV. These reports should be presented in both electronic and hard copies. A detailed work plan of how these deliverables will be achieved will be expected upon acceptance of contractor's proposal by REDSO.

6. Timetable

This task order must be executed within a calendar period of 3 months from o/a 30th August 2001 to o/a November 30, 2001. Phase I & II should be completed by October

10, 2001. A draft report for Phase III should be presented to REDSO/ESA for comments before October 30, 2001 and the final version, including REDSO's comments sent to stakeholders for their comments by October 30, 2001. Phase IV should be accomplished before November 30, 2001.

7. Team Composition and Level of Effort

Several skills will be necessary to effectively accomplish this task. These include international trade specialist, policy analysis, business linkages, private sector development skills, trade services skills, regional integration skills, project design, and impact assessment skills. The mission envisions that a team of 3-4 international and regional experts who share the bulk of these skills among themselves will be necessary. The level of effort for the team is negotiable but is approximately the following:

Trade Specialist (Team Leader)	45 person days
Private sector Specialist	35 person days
Market Networking OR Association Specialist	20 person days
Trade Services Specialist	20 person days

The time allocation can be spread through the calendar period, as the team deems fit. At least two of the four experts must be Africans with experience in the ESA region.

8. Responsibilities

The consultants will be required to give a verbal progress briefing every two weeks to Diana Putman, REDSO/FS Office Director and Mulinge Mukumbu, Senior Agricultural Economist and REDSO's team leader for this design effort.

USAID

Annex Two: Individuals/Institutions Contacted during Interview Process

(October - December, 2001)

USAID -- REDSO, Nairobi	
Steve Wisecarver	Regional Mission Director
Jerry Cashion	Deputy Regional Mission Director
Diana Putman	Director, Food Security Office
Mulinge Mukumbu	Sr. Ag. Economist/Project Manager, FS Team
Greg Howell	Private Sector Advisor
Daniel C. Evans	Natural Resources Management Advisor
Mariah Kitiabi	Agricultural Economist/RTAA Project Manager
Charles Ward	Project Manager, HASP
Wanjiku Muhato	Gender Affairs
Walter Knausenberger	Environmental Affairs
Paul McDermott	Sudan Liaison
Karri Goeldner	Somalia Liaison
Hudson Masambu	Agricultural Research Networks Advisor
Nancy Hardy	Director, Program Office
USAID Mission -- Kenya	
Meg Brown	Director, Office of Agriculture
Julius Kilungo	Agricultural Economist
USAID -- Washington	
Brian D'Silva	Sr. Agricultural Economist, USAID/AFR/SD
Vic Duarte	Sr. Economist, USAID/AFR
Jeff Hill	Sr. Agricultural Economist, USAID/AFR/SD
Art Westneat	Project Manager- ATRIP/TRADE, USAID/Global/EGAD
Ray Morton	Sr. Agricultural Policy Advisor, USAID/Global/EGAD
USAID --Zambia, Lusaka	
Allan Reed	Mission Director
Helen Gunther	Chief, Agriculture and Private Sector
Sue Gale	Private Sector Manager
USAID -- Uganda	
Ron Stryker	Team Leader, Econ. Re-structuring Strategic Team
Diana Alunque	Econ. Restructuring Team
Morgan Gilbert	Consultant, UTRADE Design

USAID -- Regional Center for Southern Africa, Gabarone	
Patrick Fleuret	Regional Mission Director
Randall Peterson	Private Sector
Scott Allen	Sr. Agricultural Policy Specialist
IFPRI (Internattional Food Policy Research Institute) Washington	
Sherman Robinson	Director, Trade and Macro-Economics Division
Eugenio Diaz-Bonilla	Research Fellow, Trade and Macro-Economics
Stanley Woods	Senior Scientist, Environment and Production Technology
U.S. Department of Agriculture	
Bruce White	Trade Capacity Specialist
World Bank/ Washington	
Jerry Wolgrin	Sr. Agricultural Policy Expert, Africa
Steve Jaffe	Sr. Agribusiness Specialist, Africa
Ron Kopicki	Sr. Supply Chain Expert, Africa
IDEA/Agribusiness Development Center/ Uganda	
Clive Drew	Team Leader, IDEA Project
COMESA, Lusaka, Zambia	
E. J.O. Mwencha	Secretary General
Sindiso N. Ngwenya	Assistant Secretary General
Charles Chantunya	Director, Trade, Customs, and Monetary Policy
James Musonda	Trade and Integration Advisor
Maeti	Infrastructure
Mark Pearson	Sr. Trade Advisor
SADC (Southern Africa Development Community), Gabarone	
IGAD, Djibouti	
Samuel Zziwa	
Gerald W. Mbuthia	Acting Director, Econ. Cooperation Division
ASARECA/ECAPAPA, Entebbe	
Isaac Minde	Coordinator, ECAPAPA

Adiel Mbabu	Planning Director
Steve Omano	
Technoserve, Inc -- Nairobi	
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Annex Four: Agenda for the Workshop

WORKSHOP ON STRATEGIC OPTIONS FOR A FUTURE REGIONAL AGRICULTURAL TRADE DEVELOPMENT INITIATIVE
January 30—February 1, 2002
Nairobi, Safari Park Hotel

Wednesday, January 30:

8:00 AM Registration

8:30 AM

- Welcome: Diana Putman, Director of REDSO Food Security Office
- Opening Remarks by Steve Wisecarver, Director of REDSO
- Group introduction of participants
- Parameters of REDSO's future food security and agricultural trade development objectives: Diana Putman

10:30 AM Coffee Break

10:45 AM

- Introduction: Eric Johnson, USAID/REDSO
- Challenges facing agriculture trade development in Eastern and Southern Africa
  John Lamb, Abt Associates
- Summary of field interviews by the team:
  Stanley Heri, Abt Associates
- Program Options for REDSO's support for regional agriculture trade
  Byron Battle, CARANA Corporation and John Lamb, Abt Associates

1:00 PM Lunch

2:00 PM

- Continuation of Program Options Presentation
- Case Study on AgroExport and Agribusiness Association Development
  Stanley Heri, Abt Associates

3:15 PM Coffee Break

- Discussion of Program Options: Diana Putman and Eric Johnson

5:00 PM Session Adjourned

6:30 PM Cocktail Reception

Thursday, January 31

9:00 AM

- Introduction to Breakout Sessions -- Eric Johnson

9:15 AM Assessment of Individual Options

- Team A: Cross-cutting initiatives
    - ♦ Option 1: General Trade Facilitation
    - ♦ Option 2: Agricultural Trade facilitation
    - ♦ Option 3: Developing Market Institutions
- Team B: Product and Business-oriented initiatives
    - ♦ Option 4: Agri-Food Supply Chains
    - ♦ Option 5: Value-added Agribusiness
    - ♦ Option 6: Agritrade Development Center
    - ♦ Option 7: Enterprise-Led Initiatives
    - ♦ Option 8: Market-Led Initiatives
- Team C: Geographic-specific (sub-regional) initiatives
    - ♦ Option 9: Trade Corridors and Triangles

10:30 AM Coffee

10:45 AM Assessment of Hybrid Options

- Team A: Hybrid to Maximize Trade Capacity
- Team B: Hybrid to Maximize Agricultural Trade Growth
- Team C: Balancing Agriculture Trade Capacity-Building and Trade Growth

1:00 PM Lunch

2:00 PM Detailed Strategy and Planning Period

- Formulation of Draft Work Plans
- Estimation of Expected Results
- Preparation of Presentations

3:30 PM Coffee break

3:45 PM Plenary Presentations of Options: Eric Johnson

Friday, February 1

9:00 AM

Moderators: Diana Putman and Eric Johnson

- Plenary discussion of hybrid options
- Resource requirements
- Possible implementation instruments

10:30 AM Coffee Break

10:45 AM Summation

- Defining future thrust of REDSO program: Diana Putman and Eric Johnson

1:00 PM Lunch

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Annex Five: Conference Participants

Workshop on REDSO's Design of a Future Regional Agricultural Trade Development Initiative

January 30 – February 1, 2002
Nairobi, Kenya

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