MANAGEMENT SUPPORT AND TECHNICAL ANALYSIS SERVICES (MSTAS) PROJECT

Sub-Saharan African Trade and Investment Constraints and Opportunities: An Assessment and Proposed Research Agenda

June 20, 2014

This report was produced for review by the United Agency for International Development.
It was prepared by the USAID Management Support and Technical Analysis Services (MSTAS) Project implemented by The Pragma Corporation and its partners in compliance with contract No. AID-OAA-M-13-00012.

Table of Contents

SUB-SAHARAN AFRICAN TRADE AND INVESTMENT CONSTRAINTS AND OPPORTUNITIES: AN ASSESSMENT AND PROPOSED RESEARCH AGENDA

This report presents the findings of a three-week mission of the Management Support and Technical Analysis Services (MSTAS) project team members to regions supporting USAID's Africa Trade Hub programs.[1] An extensive desk review of relevant documents preceded the mission.

The purpose of the report is twofold: (i) analyze the current situation regarding trade, integration and investment in Sub-Saharan Africa, and review USAID's principal programs underway and likely future evolution in support of these three areas; and (ii) propose a research agenda which will contribute to advances in these same three areas.[2]

This report focuses on what we believe are the most important topics which need to be addressed, and in the opinion of the MSTAS Team, are not at present being adequately addressed given their relative importance.[3] In this sense, these priorities constitute a checklist that should be considered in the formulation of regional trade and investment strategies by each Trade Hub program. The report identifies key accomplishments and challenges to be taken into account by USAID as it prepares strategic interventions and works to leverage trade and investment expansion in the Sub-Saharan Africa (SSA) region and to help the region take fullest advantage of burgeoning trade, integration and investment opportunities. Addressing key policy and institutional challenges and taking advantage of strategic opportunities are critical for SSA as it strives to become much more competitive on world markets and to better supply its people with the goods and services that they so urgently need to live healthy and productive lives.

Discussions with USAID regional missions, Trade Hubs, entrepreneurs, business associations, service providers, financial institutions, donors, regional institutions, and think tanks shaped the conclusions of this report. All the interviews underscored the fact that SSA is at a crossroads. In general, the persons interviewed consider SSA to be a region with tremendous potential.[4] But all also agree that the realization of that potential will require a strategic mix of policy and institutional reforms complemented by institutional strengthening that addresses key competitiveness constraints. This would increase the level and productivity of investment and enable the region to take robust advantage of inclusive growth opportunities.

[1] The mission visited Nairobi, Mombasa, Arusha, Johannesburg, Pretoria, Gaborone, Accra and Abuja from March 9-29, 2014.
[2] An earlier version of this report included a third section that proposed a framework for monitoring and evaluating the next generation of USAID financed support to Sub-Saharan Africa trade, integration and investment. That section was subsequently separated from the rest of the report.
[3] These recommendations do not imply that USAID has the resources to address all of them, and clearly a prioritization of needs in relation to projected resource levels would have to be undertaken prior to implementation.
[4] In particular, rising labor costs in China offer ample opportunities for SSA to increase exports to world markets.

Consistent with its purpose, this report contains two sections: (i) an overview of the core trade, investment, integration and expansion challenges and opportunities facing SSA, along with recommendations as to how USAID can best position its support strategy and initiatives to help the region take advantage of these opportunities; and (ii) a prioritized research agenda aimed at helping address some of the SSA's most vexing inclusive growth issues and at articulating effective approaches to take advantage of key trade and investment expansion opportunities.

I. Challenges, opportunities, and recommendations

This section identifies six areas where additional work is crucial for bolstering trade, integration and investment. The six areas are: (i) Trade and economic integration; (ii) The Regional Economic Communities (RECs); (iii) Investment in SSA, in particular US investment; (iv) Financial access; (v) The role of the private sector; and (vi) Increasing SSA's exports. This report presents an overview for each area, identifies why each is important, and at the end of each area, presents strategic recommendations. As noted in this section, the MSTAS team is cognizant of several important USAID-financed programs that are underway in support of these areas. Most of these are referenced in the report. Many, but not all, of the strategic recommendations of this section lead into research and analysis recommendations in the second section of this report.

A. Trade and economic integration

In recent years, SSA has made important progress toward economic integration. With support from USAID, other donors and the private sector, transport costs have fallen and transit times from ports and border crossings to markets have decreased. The Trade Hubs (THs) in each region have played pivotal roles in spurring these improvements. However, major bottlenecks remain and daunting issues still need to be addressed. The MSTAS mission carefully reviewed USAID supported Trade Hub programs in East (EATH), Southern (SATH) and West Africa (WATH) and how these programs contribute to trade, integration and investment.

All three THs support trade facilitation, in particular along key transport corridors. In the East, South and West important progress toward faster border crossings has been characterized by:

- Joint Border Committees (JBCs) where officials at border crossings (revenue officials, police and customs officials, among others) collaborate to do most of their work at one point, rather than requiring several distinct checks at different points near the border. There are 16 JBCs at East African Community (EAC) border crossings.[5]
- Some progress in SATH programs toward National Single Windows (NSWs) in Malawi and Zambia where one form (eventually an electronic form) and the

[5] The first JBC in the East opened in 2010.

delegation of authority by agencies responsible for checks at borders will eliminate paperwork and speed border crossings.

- Proactive Border Information Committees (BICs) in the West at four border crossings with a BIC on each side and at the Dakar port. These may be viewed as precursors to JBCs.
- Road harassment, a common issue in West Africa, is now less prevalent due to a "Name and Shame" program. Bribes have also diminished, likely as a result of this same program.
- Customs interconnectivity, which permits the transmission of customs data from ports to remote border crossings. Each of the THs supports different variants of connectivity. USAID supports the Revenue Authorities Digital Data Exchange (RADDEx2.0) in the East. However, the EAC will have to decide how to best advance toward full electronic integration of customs information systems since Kenya currently uses a different system (Simba) and not all the EAC countries use RADDEx2.0. A regional single window could eventually replace RADDEx2.0.
- With some exceptions,[6] most tariffs on intraregional movements of goods are – at least theoretically – zero in the EAC and Southern Africa Development Community (SADC) countries.
- The emergence of electronic data has slowly reduced human discretion in preparing and checking forms and therefore opportunities for rent-seeking behavior.
- There has been some harmonization of service standards, for example, limited progress has been made in the EAC toward harmonization of accounting, legal and education standards.
- There has also been some harmonization of tax regimes, especially in the East where all countries have similar VATs.[7]
- The EAC has an established legislative body and its laws take precedence – at least theoretically – over national laws. ECOWAS too has a Parliament and its decisions also have the force of law. Both EAC and ECOWAS have courts to enforce regional legislation.[8]

Nevertheless, common problems hinder attempts to move expeditiously forward:

- Non-tariff barriers (NTBs) of an ever-changing nature and in a wide variety of forms have replaced tariffs.[9] In some cases, fiscal charges taking the form of fees and commissions resemble NTBs. Although there is a gray area where some legal and regulatory provisions may be appropriate to protect health and security and for legitimate user charges, national protectionism and rent-seeking appear to be the driving force underlying the proliferation of NTBs. Aspirations for the adoption of

---

[6] Exemptions appeared to have crept up in recent years across all regions. Many relate to rules of origin.

[7] VATs range from 16-18% in EAC countries.

[8] A consultation of the ECOWAS website, however, reflected ambivalence about the force of ECOWAS's legislative powers. It also contained a complaint that decisions of its court are not respected.

[9] The EAC Scorecard put this rather bluntly: "There are as many NTBs as human creativity can design." In IFC, The World Bank, "Free Movement of Goods Scorecard," PowerPoint presented at The EAC Scorecard Reference Group Meeting," Nairobi, Kenya: September 24 (2013), Slide 15. The same scorecard noted that NTBs constitute moving targets. New NTBs may appear daily, making an analysis of NTBs always incomplete (slide 16).

single customs territories and common markets cannot be met until this problem is resolved at its roots.

- In some countries (for example, Nigeria, Ghana, Tanzania and Kenya), internal checkpoints and municipal taxes serve as important NTBs. Checkpoint stops range in seriousness from being minor nuisances to constituting an important source of delays and higher transport costs. They also provide opportunities for rent-seeking behavior. At least one large, powerful shipper claimed it bypasses roadblocks in Tanzania without stopping, while smaller shippers complained bitterly about the stops. Transactions costs, both legal and illegal, may affect smaller traders disproportionately and thereby thwart their access to larger growing markets.[10]
- Despite some reductions, rent-seeking activities continue to the object of complaints throughout Africa.
- Under their respective regional trade agreements, the three regions have adopted different Rules of Origin (RoO). It is unclear if RoO have been designated with due consideration of the ability of smaller countries to meet local content requirements. Even when RoO have been harmonized, for example under the EAC, implementation has been difficult. EAC certificates of RoO are often not recognized at borders, and issues related to RoO accounted for nearly one-quarter of the NTBs reported between 2008 and June 2013. This constitutes a serious barrier to the creation of a single customs territory and a common market. Although the EAC adopted common rules of origin, individual states have been reluctant to accept and enforce them.
- Some containers have to be opened and shut for inspection up to ten times before reaching their final destination.
- Although improving, paperwork is still onerous. Multiple and often duplicative forms must often be prepared for each country on a transit route. This constitutes an important NTB.
- Rotation of border crossing officials and a lack of knowledge of procedures, generally on the part of new officials, continue to slow down traffic across borders.
- Transport infrastructure is inadequate. SSA has some of the world's highest transport costs. High costs prevail all along corridors – at ports, land transport and border crossings. They are especially high in the three EAC landlocked countries: Rwanda, Burundi and Uganda. Throughout the SSA region, ports are congested and sources of major delays for both exports and imports.
- Little progress has been made on the standardization and integration of services. Economic integration requires much more attention to the legal and regulatory regimes, standards and cross-border harmonization affecting telecommunications, electricity, health, education and labor (among others).
- The lack of harmonization of financial services across borders constitutes an especially important impediment to integration. For instance, several business associations expressed frustration with the lack of adequate cross-border payments mechanisms. Sharing prudential oversight information and joint training/examination activities are virtually unheard of. Overall financial

[10] This does not imply that all large shippers can move freight expeditiously because the MSTAS Team is aware of complaints from large shippers.

intermediation rates remain abysmally low in most SSA countries,[11] and capital markets remain at a nascent stage of development. Moreover the financial resources and technical-managerial expertise of relatively advanced regional finance "hub" networks – in particular South Africa and Kenya – remain underutilized.

- Despite some progress toward tax harmonization, much more remains to be done – not only to eliminate local taxes on transit, but also to harmonize excise tax regimes and to eliminate double taxation on a firm from one country that does business in another. This is critical throughout the SSA region. Nevertheless, it is important to recognize that some countries legitimately fear the loss of tax revenues associated with reforms, including the elimination of double taxation, the institution of a single visa to visit the countries in a community, or the elimination of municipal taxation on trade.
- More work is needed on the harmonization of standards in the three RECs, especially on service standards. In Southern and West Africa, the determination of standards could benefit substantially from greater private sector participation.
- Bans on the export and import of staple food products create havoc in regional food markets across SSA[12]. Variable import tariffs (often far over the Common External Tariff – CET), quotas, occasional massive duty-free imports,[13] restrictive RoO and price controls exacerbate the problem. Often devised with little public scrutiny, the measures damage producers and associations with sales contracts. They also limit formal trade, create uncertain market conditions, contribute to food price instability, and encourage an already flourishing informal trading network across borders. In addition, they serve as a brake on investment and lead to substantial losses to producers, who are often low-income small farmers and women. Fragmented and informal markets disproportionately impact women engaged in production and trading. Regional food security issues could best be handled at a regional level.
- For Southern and West Africa, the RECs essentially play an "advisory" role. SADC's lack of a pro-active stance on trade and integration issues appears to reflect little interest in these topics on the part of its Member States. In the West, ECOWAS activities reflect divisions between Francophone and English-speaking countries, especially Nigeria. This has limited their effective capacity to drive progress on harmonization and integration of trade and investment policies as well as standards within their sub-regions.

---

[11] Domestic credit to the private sector was only 32 percent of GDP in SSA compared to 77 percent for low and middle income countries in 2012 (World Bank, World Development Indicators, 2014, Table 5.5).

[12] For example, Nigeria, West Africa's largest market of 160 million consumers, has import bans on 24 groups of products including food, meat and fish.

[13] For example, consider Tanzania's rice imports in late 2013. Fearing shortages, country authorities imported excessive amounts of rice. Tanzania is said to have subsequently mixed some of the surplus with domestically produced rice for regional sales – to the chagrin of its neighbors.

Strategic Recommendations:

1. Address the issue of NTBs by working with countries, the RECs, and private sector organizations to monitor them, petition those responsible to eliminate them, and most importantly devise a way to diminish their prevalence or to eliminate them altogether. This should entail focused efforts to prioritize NTBs in accordance with their distortive impact on trade and investment flows. It should also provide cogent empirical evidence on the benefits of removing them from the viewpoint of income and export generation. It should subsequently entail focused technical and institutional outreach support to eliminate the most critical NTBs. This work would review and strengthen National Monitoring Committees, consisting of public and private entities to facilitate resolution of NTBs. These committees are already operating in EAC countries and are either operating or mandated in SADC countries.[14]
2. Focus on the policy barriers impeding the free cross-border movements of staple foods. Removing these barriers may mean major gains to low-income farmers and women.
3. Address the issue of bribes head-on, by establishing a "Name and Shame" system throughout Africa. Credible allegations of rent-seeking activities would be assembled and disseminated to interested authorities.
4. Work with the RECs and countries – and in some cases, with other international institutions – in progressing toward tax harmonization[15]. It is important that USAID work with these countries to find alternatives to trade taxes, both at the national and municipal levels. The regions also need to resolve double taxation of corporations that do business across borders. Given the nature of the issues and the relative expertise in USAID missions, this work could be best carried out in a coordinated manner by regional and/or appropriate bilateral missions.
5. Focus on overall transit time and delays and how to systematically and permanently reduce them, taking into account the entire transportation network, including ports and aviation hubs. JBCs, NSWs, BICs and customs connectivity are important tasks that need be mapped out within the broader context of how best to promote transformational improvements and increased investment in the operation of transport systems.

B. The Regional Economic Communities (RECs)

Africa has several RECs,[16] each with its own priorities, issues and achievements. Some countries pertain to multiple RECs. All are essential to fostering progress in regional

[14] Meeting of the Committee of Ministers Responsible for Transport and Meteorology, Non-Tariff Barriers reporting, Monitoring and Elimination Mechanism. October 14-16, 2013.
[15] The EAC has made important progress toward tax harmonization with the help of GIZ.
[16] The EAC, SADC and ECOWAS correspond to the general areas of influence of the Trade Hubs, but there are additional RECs including SACU, UMEOA and COMESA. COMESA is the largest and most geographically diverse of the RECs. It was to be the centerpiece of efforts to create a tripartite agreement among SADC, COMESA and EAC – in part because of interlocking memberships. COMESA also has

economic integration because they are the legally established institutions to foster economic integration and regional trade. Consequently, collaboration with them is essential for achieving successful outcomes in trade and integration. However, given the unique circumstances and challenges facing each REC, USAID's priorities in dealing with each one will necessarily reflect these circumstances.

For countries that are members of multiple RECs, dealing with distinct sets of rules of origin (RoO) and common external tariffs (CET) present daunting obstacles to truly seamless cross-border trade. For example, in West Africa, members of ECOWAS and UEMOA have some overlap and these countries must adjust to two separate sets of regulations for trading with their neighbors. Accordingly, advancing efforts to move toward one common set of customs and trade regulations within each region would be beneficial.

The EAC appears to have made the most progress in advancing toward a single customs territory and a common market. EAC presidents have signed far-reaching protocols calling for a single customs territory, a common market and even a monetary union.[17] However, progress in implementing the protocols has been fraught with difficulties. Several key deadlines have passed unfulfilled and the upcoming deadline of June 2014 to fully realize a single customs territory is unlikely to be met.

In West Africa, the role of ECOWAS appears to be almost purely consultative in nature, much like that of SADC. It does not appear to be proactive in driving compliance with trade integration related protocols and its legal mandate is limited. In this regard, no formal protocol on service sector integration has yet been signed by ECOWAS members. Technical staff capacity is extremely limited. The fact that it is housed in regional powerhouse Nigeria may exacerbate matters, because Nigeria espouses protectionist industrial development policies and appears wary of rapid movement toward full trade integration and broader common market integration. The inward-looking nature of Nigeria, the rift between Francophone and Anglophone members and the conflicting impact of a common currency among the Francophone members all lead to gravitational pulls away from integration. This further erodes institutional momentum and progress toward the resolution of major integration issues. Thus, the largest REC in terms of population has the least to show for its efforts at regional integration.

In Southern Africa, the Southern Africa Development Community (SADC) appears to be languishing. It undergoes periodic and frequent staff rotations. In addition, it does not seem to be assuming a pro-active role in improving policies and regulations to promote regional integration[18]. This probably reflects a lack of SADC country interest in integration,

---

shown important pragmatism in devising trade facilitation measures and trade financing institutions including an export credit agency.

[17] The monetary union protocol was signed on November 30, 2013.

[18] But a recent request by SADC to help it develop a Trade Facilitation Program may signal that a change is imminent.

exacerbated by distrust of South Africa's economic power. To make matters worse, South Africa is not exercising strong regional leadership as an integrating force.[19]

The EAC appears to be assuming a more proactive role than the other RECs, but it too suffers from institutional weaknesses. On one hand, frequent EAC technical staff meetings with country counterparts bolster the EAC's efforts to promote trade and integration. Jointly they put together proposals for the consideration of their authorities. This greatly contributes to the EAC's ability to be pro-active. On the other hand, however, like the other RECs, its capacity for analysis is also severely limited. Moreover, its dependency on consensus among its members impedes decision-making.

<u>Strategic Recommendations</u>:

1. A key recommendation of this report is that USAID more actively engage the RECs in a dialogue aimed at harnessing their capacity to be a vital force in promoting an agenda conducive to much greater integration, trade and investment in their respective areas. In each of the three regions spanned by the THs, the THs and/or the Regional Missions maintain contacts with the RECs and seek to engage them. Even though the RECs are weak technically, they nonetheless have an indispensable role to play in driving the integration process forward. Beyond engagement, USAID missions should seek, whenever possible, to collaborate and support the RECs in both strengthening their technical capacity to promote trade and integration and in pushing ahead on crucial integration themes. The latter include dismantling of the highest priority NTBs. It also calls for working with the RECs to systemically resolve issues associated with most NTBs and supporting progressive RECs in finding permanent solutions to these issues. But even if such technical engagement cannot be undertaken on an intensive basis for budgetary reasons, USAID should at a minimum maintain a more proactive dialogue with them and attempt to garner their support in accelerating progress toward greater trade, integration and investment. Since the RECs are the entities legally charged by their member countries with furthering integration and building trade and investment, they should be fully supported. This applies to both to proactive RECs and those which appear to be languishing.

2. Given the ambivalent nature of support to trade and integration, it is important to estimate the gains to increased trade and integration for the regional economic communities.

C. Investment in Africa – in particular US investment

We lack clear, comparable and reliable data on trends in total investment (including domestic investment) and FDI by international investors into SSA extractive and non-extractive activities. But we know that overall FDI into SSA is low. It only accounted for 3.0

[19] The MSTAS Team could not find anybody in SADC available to receive the Mission. Most were "away." Similarly a new US Ambassador to Botswana had to wait six months to set up a meeting with the SADC leader.

percent of total global FDI in 2012. But, the trend is upwards. It grew from 1.2 percent of overall FDI in 2006.[20] Much of this, however, is destined for extractive activities.

Anecdotal information indicates that US FDI into SSA has increased dramatically in percentage terms over the past 10-15 years, but that it pales in absolute terms if compared to investments by Asian and European entities. Africa's most important international investors appear to be China, India and the EU. It should be noted that almost all US investment in SSA is concentrated in extractive industries.

The MSTAS team inquired about possible reasons for low US investment relative to European and Asian investment. Reasons provided to the team included a lack of a large American presence in SSA, rampant distortions in business licensing and permitting, inadequate protection of property and transaction rights, and low US business acumen for dealing with such issues[21] (including addressing the demands of rent seekers). Other factors weighing in against US investment include distance and high transport costs, high energy costs, trade regime rigidities which hamper access to robust regional markets, few direct air connections with the US, and simply not knowing how to conduct business in Africa. In addition, financial sector executives pointed to negative perceptions by US investors on Africa, lack of an aggressive campaign to attract American investments into SSA, existing African commercial ties to its European markets, and the inability of SSA exporters to meet American standards. The latter encourages investments aimed at exporting to markets that demand lower quality standards.

Several persons interviewed by the MSTAS Team noted much less interest in due diligence on the part of Chinese investors, in particular those backed by public funds. This enables such investors to move quickly to close on business deals perceived as attractive.[22]

One source cited the importance of large Chinese infrastructure investments as levers to greatly raise their profile in a country. A typical Chinese-funded major infrastructure investment will bring a large number of ex-pats to implement the project. Some stay, invest in SMEs, and import goods from China. This contributes to a Chinese presence and networking, which constitute two fundamental elements in encouraging investments and learning how to take advantage of opportunities. A CEO of a large bank perceives China as much more aggressive in terms of trade and investment in East Africa than any other partner. He characterized AGOA as a great instrument, but conceded that the Chinese investment and trade processes are easier to implement.

Another senior commercial bank representative noted a major financing deal to Kenyan Airlines to expand its operations – not to Europe or the US, but to China and other Far

[20] World Bank, WITS database.

[21] As amply documented by the World Bank's *Doing Business* indicators. With a few noteworthy exceptions, such as Rwanda, Mauritius and Seychelles, most countries rank in the bottom third or fourth of all countries in most of the Doing Business indicators.

[22] This has also led to several disastrous investments.

Eastern markets. He opined that US and European markets are overcrowded and over-regulated, which makes them too competitive and therefore too expensive to enter.[23]

With the exception of the extractive sector and South Africa, US foreign direct non-extractive investment into sub-Saharan Africa has been extremely limited since the passage of AGOA. In a 2012 analysis of AGOA, a Brookings Institute report noted: "although the vibrancy of many African markets has largely escaped the notice of most American investors, the same is not true for businesses based in other nations."[24] AGOA's market access provisions have attracted foreign investment, especially into the textile and apparel chain, largely by Asian and Turkish firms. US firms are no longer a presence in global apparel manufacturing.

However, Africa seeks to engage US companies because of their reputation for integrity and technological innovation. One only has to observe attendance at the annual EXIM bank meetings of the bi-annual Corporate Council on Africa Summit to see evidence of the welcome embrace of African businesses. Unlike many other investors, US investors are known to offer numerous "spillover" benefits, such as:

- Cutting edge technology transfer;
- Best practices management standards are introduced;
- The development of a maintenance culture;
- Ethical standards are upheld due to legislative requirement and business culture; and
- Skill development of local employees is a hallmark of US firms.

Spillover benefits of FDI can create productivity gains for local firms that provide goods or services to the foreign investor as they become integrated into Global Value Chains (GVCs). However, SSA currently exhibits little integration into regional and global value chains.[25]

A recent example of a transformational foreign investment occurred in Ethiopia in 2102 when UK global beverages giant Diageo purchased Meta Abo brewery for $240 million. Within 24 months, Diageo has shifted 70% of its barley supply from foreign to Ethiopian suppliers. The company also invested another $50 million and has increased production by 50%, also raising overall industry standards. Similarly, Coca Cola and the Bill and Melinda Gates Foundation invested $11.5 million in the fruit juice supply chain and are now sourcing mango and passion fruit from 37,000 smallholder farmers in Uganda and Kenya to supply regional markets.

While there has been US portfolio investment into the more advanced stock exchanges, the absence of US direct investment has undermined the impact of AGOA and created public diplomacy challenges for the US government. The good news is that there is keen interest

---

[23] This type of comment underscores the impact that ongoing service sector integration constraints have on limiting trade integration under AGOA.

[24] Brookings Institution, *Africa Growth and Opportunity Act (AGOA): Looking Back, Looking Forward*, Brookings Institution June 2012.

[25] The Africa intraregional trade in intermediate manufactured goods as a percentage of total manufactured goods trade is far lower than that of other major developing regions (World Bank, WITS database).

in Africa among US investors, especially those in the area of Private Equity. In a recent round of solicitations for Africa fund management, OPIC received a record 75 solicitations from Private Equity Funds interested in Africa. Global Institutional Investor recently rated Africa as the most attractive venue in the world for growth of private equity. According to the Emerging Market News, Africa has attracted only 4% of global emerging market private equity as opposed to 63% in Asia.

Although the Trade Hubs have been instrumental in attracting new investment,[26] in the past their priorities generally focused more on trade and economic integration. In order to raise their attention to investment, support programs to develop new capacity will assume greater importance. Resource availability will, of course, dictate the level of effort but it is envisioned that a dynamic new approach could prove of great importance in attracting significant US investment flows into SSA. This in turn could play a major role in expanding the impact of AGOA on job and income creation and sustainable poverty reduction. In this regard, a critical entry path for US markets across a range of regulated and highly competitive sectors (for example, food processing) would be a major U.S. investor whose presence facilitates standards compliance and smooth integration into branding and distribution networks. A targeted facilitation effort could entail several major and interrelated technical support and outreach components as elaborated below.

Strategic Recommendations:

In this regard, the new Trade and Investment Hubs should have an office charged with a range of investment facilitation and promotion responsibilities. Key responsibilities of that office would include the following:

1. Link with Power Africa – It is estimated that Africa needs $300 billion in new investment in power between now and 2020. This constitutes an opportunity for US firms to provide creative capital and transformational technology in traditional and non-traditional subsectors alike. Power Africa has located transaction advisors in each of the seven Power Africa countries.[27] Close coordination with the transaction advisors is recommended. Promising multiple support roles include investor solicitation, development of investor profiles, help in identifying financially and economically viable investment opportunities through CBA, co-marketing at investor conferences and on-ground support for prospective investors.

2. Legal reform advocacy - Build an advocacy campaign to concentrate on the enabling environment issues most troubling to foreign investors. Unfortunately, most of the

[26] For example, the WATH, that closed in 2013, facilitated approximately $90 million in investment, including in apparel, shea and cashews. Likewise, the EATH helped build up strong relationships in the apparel sector through ACTIF. It also supported sourcing missions leading to PVH deciding to invest in an integrated CTA value chain in East Africa.

[27] This approach is bearing fruit in Ethiopia where Reykjavik Energy, an Icelandic geothermal power producer, has committed to an $80 million investment facilitated by Power Africa.

African countries covered by USAID regional missions are in the bottom quartile of the World Bank's Doing Business indicators. While the list of important enabling environment reforms is long, there are a few that are especially detrimental to the foreign investor. These include stabilization clauses, Alternative Dispute Resolution provisions and systems, IPR laws and land tenure constraints. As seen in the East Africa Scorecard, strong legal/regulatory specialists with knowledge of the local institutional environment and ready access to relevant legal/regulatory documentation are best positioned to identify and advocate for the removal of impediments to FDI. It is recommended that the new Trade and Investment Hub architecture include engagement with strong local-regional legal and regulatory expertise, and from an advocacy perspective, with relevant economic think tanks and business associations at the national and regional levels.

3. Investment promotion – The efficacy of national investment promotion offices in Africa is often woeful and at the regional level, non-existent. However, international experience clearly demonstrates that effectively functioning investment promotion offices can play an important role in promoting awareness of sectoral investment opportunities, convening targeted events that attract investors, and providing meaningful customer care services for existing investors which help "get the word out" regarding the attractiveness of local investment opportunities. Relevant Trade and Investment Hub support staff could work with counterparts in Trade Promotion Offices to prepare investment opportunity profiles that could be posted on national investment offices websites and distributed at investment promotion events. In Addis Ababa, Ethiopia, ADCI/VOCA and Precise Consult have such profiles available. Although these descriptions fall well short of a prospectus, they nevertheless provide enough information for a potentially interested party to follow up with direct inquiries. Additionally, the IFC's Foreign Investment Advisory Service often has advised national entities in investment promotion. Specialized TH staff could collaborate with IFC specialists in working with Invest Promotion office counterparts to strengthen institutional capacity and promote targeted investor outreach efforts at the sector-specific level. Lastly, the Trade and Investment Hubs can offer training on the development of website design and related "messaging" strategy and efforts to solicit prospective US investors.

4. Work with business associations to identify and promote high potential technology transfer and investment opportunities – Business associations and their members often know who is investing and what technologies could transform their businesses. In the latter, the THs could work with US firms to proactively seek partners to help distribute their technologies in such areas as food processing and storage, health systems and beneficiation of mineral products. For example, the Cold Chain Alliance has been an effective interlocutor for US food storage technology. SAPICs is another supply chain focused business association that could be a useful platform for linking US technologies and Africa. SAPICS has several events per year in South Africa.

5. Appoint investment advisors – In order to accelerate business deals under Power Africa, OPIC and EXIM could utilize transaction advisors to facilitate deal flow.

Consideration could be given to appoint transaction advisors to assistant the Trade and Investment Hub in identifying investment opportunities or prospective US investors that would focus on key value chains to be supported under TH programs. Such institutions as Standard Bank, CITI, Kapanda Capital and African Alliance offer breadth and depth in Africa national and regional markets. These institutions often have deep databases and convening power and would make excellent partners in organizing events.

6. Work the diaspora – The African diaspora is becoming a force in transacting business between the US and Africa. Remittances into Africa are now larger than development assistance and FDI flows combined. Yet, remittances could do more in terms of investment. Recent liberalization by the SEC of crowd financing vehicles could be a source of diaspora funding of Africa projects. Also, diaspora networks in the US are often made us of professionals and business executives wishing to invest in Africa. The Trade and Investment Hubs should engage these networks in a focused manner.

7. Engage the creative capital arena – FDI can also flow to emerging companies who will eventually list their stocks on one of Africa's growing exchanges. Apart from leading financial institutions as listed above, the Trade and Investment Hubs could enter into focused dialogues with leading creative capital organizations such as EMPEA, SAVCA, the Milken Institute and the New York Society of Security Analysts to facilitate funding ties with high potential SSA businesses, including in targeted value chains. Such collaboration could be co-convening event, organizing trips for African businesses to events, and providing speakers.

8. Grow current investors – An often-overlooked pool of potential FDI are those US firms already invested in SSA. The Trade and Investment Hubs could engage US Chambers of Commerce by informing them of investment opportunities, convening events, providing speakers and serving as sources of verification for potential investors eager for a perspective from a fellow US firm.

9. Support US investors – US investors new to Africa will need some reassurance in navigating the marketplace. The US Trade and Investment Hubs can assist potential investors in obtaining needed information, making appointments with key officials and providing lists of service providers such as lawyers, accountants and engineers. More importantly, they can work with relevant local and regional business associations and public sector investment promotion offices to develop this permanent capacity.

10. US risk mitigation – With two current Commerce Department Foreign Commercial Service (FCS) positions in Africa and more approved,[28] the Trade and Investment Hubs can play a targeted role in informing US and Africa investors on the panoply of US investment mitigation programs such as EXIM Bank, OPIC, TDA and USAID's GDA program. In addition, USTDA is working with DOS to place two officers in SSA. The locations have not yet been determined.

[28] The approved expansion plan calls for offices in Mozambique, Angola, Tanzania and Kenya.

In short and in practical terms, AGOA needs a better sales pitch. Investment conditions need to be improved and potential investors need to be effectively lobbied. Information on opportunities needs to be disseminated in the US. Securing higher levels of U.S. investment in non-extractive sectors is critical if the full benefits of AGOA are to be realized. To achieve this aim, USAID will need to work with Governments to clearly identify the principal reforms needed to bolster FDI, and to help overcome the formidable institutional barriers impeding reforms.[29] This again is work that will need to be carefully coordinated between TH programs and appropriate bilateral missions.

D. Financial Access

Introduction: The SSA region exhibits dramatic constraints in access to finance for both productive sectors and key infrastructure service sectors. Core intermediation rates – loans and savings as a share of GDP – are with a few exceptions quite low across the continent (ranging from 20% to 30%); and viable enterprises continue to experience limited access to loan products and related financial services. Increasingly stringent prudential oversight regulatory frameworks (in response to the financial crisis and Euro Zone crisis pressures); informational constraints driven by limited progress on credit bureau development; ongoing legal/regulatory rigidities in the collateral rights and enforcement frameworks; and basic financial literacy issues continue to limit bank willingness to proactively expand financial service availability beyond traditional corporate clients.

These constraints in turn exacerbate the inherently conservative lending and market outreach approach of most banking institutions. They also reinforce the lack of understanding on the part of most financial institutions regarding how to provide flexible and cost-effective outreach, risk analysis and management services to nontraditional client groups in a manner which will allow them to penetrate this untapped source of market demand and gain market share. Innovative USAID-supported programs in the mobile banking, warehouse receipts, and purchase order financing under recent Trade Hub Programs have helped expand bank awareness of and improved linkages to the entrepreneurial sector across a number of SSA countries. Nonetheless, the overall availability of loan financing for viable enterprises in value chains that can drive inclusive medium-term growth in most SSA countries (for example, in agriculture and agribusiness, textiles and apparel, handicrafts, and tourism) remains fundamentally constrained.

In addition, export finance is further constrained by the lack of an integrated payments infrastructure across trading partners. This includes a lack of symmetry in regulatory guidelines covering the payment documentation required prior to funds release, and for some countries in each region, a lack of integration into the same real-time gross settlement network. As a result of these constraints, at times even fully LOC-backed trade transactions can reportedly take over one month to complete. These problems are most

[29] It is often said that governments constitute some of the main obstacles to higher levels of investment.

easily avoided when the transactions are conducted on an intra-bank basis by financial institutions with a strong regional presence.

On the equity side, despite a mushrooming of investment funds across major SSA financial hubs (and sponsorship from the donor community, including the IFC, AFDB and major bilateral donors) medium-scale enterprise access to equity and quasi-equity resources remains virtually nonexistent. Investment funds and fund managers are again inherently conservative in their outreach and investment analysis and deal-making activities. They typically have limited effective tie-in channels to the types of potential mid-tier and apex firm clients serviced under donor-supported value chain programs. The typical "corporate culture" of such institutions differs from that of donor-managed projects; and they rely fundamentally on a type of in-depth due diligence process and stringent corporate governance requirements that donor-supported value chain programs often (unfortunately) don't focus on sufficiently.

On the infrastructure side, despite past donor support programs there remains a significant shortfall in the availability of high quality infrastructure services traditionally provided or co-provided by the private sector (e.g., trucking fleets, health care services) as well as critically important physical and social infrastructure services traditionally dominated by public sector service providers (e.g., power, telecom, transport, water). This continues to cripple competitiveness and hamper the achievement of core inclusive growth and poverty reduction goals. At best, limited progress has been made on harmonization of core infrastructure policy and regulatory frameworks, and effective integration of service provision standards and networks. Service coverage performance for most countries, particularly in rural areas, remains grossly inadequate. The development of PPP frameworks and effective galvanization of private and quasi-private capital for infrastructure expansion projects remains quite limited. Again, in this case it appears that, despite the mushrooming of investment funds and investment banking services, little capital and technical-managerial know-how resources are being effectively brought to bear to address the region's core infrastructure service provision shortfalls.

Trade Hub Intervention Strategy: As noted above, Trade Hub Programs have made strategic contributions to improving access to finance for economic actors in the key value chains supported by USAID TH Programs. In the case of East and Southern Africa, these support efforts have focused primarily on developing specific financial products, such as warehouse financing, and related institutional arrangements for warehouse and warehouse operator certification processes. This support has been targeted to key basic grain commodities being supported by the THs under Feed-the-Future initiatives, and in turn linked to technical training and legal and regulatory reform efforts designed to standardize product quality characteristics for these products at a regional level. These targeted institution-building efforts in turn can help drive availability of market-based forward financing for both warehouse operators and for farmers and aggregators who participate in the warehouse receipts system.

This has entailed both training for warehouse operators and farmers regarding the certification and related information gathering and dissemination systems; and work with participating banks to facilitate understanding and effective utilization of warehouse receipts as collateral for lending activities to agricultural value chain agents. It is also expected to indirectly spur additional financing for warehouse capacity, and to encourage development of nascent regional commodity exchanges. The program has been combined in some instances with DCA co-guarantees to participating banks. Results from these targeted institutional reform and strengthening interventions are beginning to emerge. For instance, over the past three years the emergent warehouse receipts system in South Africa has generated approximately $ 3 million in funding for program beneficiaries.

The TH Program in West Africa has adopted a less product-oriented approach, focusing instead on strengthening overall institutional linkages between TH beneficiaries and financial institutions. Under this approach, the TH Program has launched technical training support efforts to help farmers, processors and clients in non-agricultural value chains supported by the program to better understand the basic business planning and financial analysis and reporting requirements of lending institutions. It also helps them prepare documentation required for lending purposes. These outreach activities have operated through an incentive-based support program with pre-selected BDS organizations. Under this program, BDS partner compensation is directly tied to their success in working with Trade Hub client firms to access commercial financing. This appears to have strengthened program impact. During the course of implementation of the most recent Trade Hub program, over $16 million in financing was directed to the cashew sector alone. WATH was also involved in debt restructuring support in collaboration with commercial banks with savings in excess of $1.5 million. Particular focus in this region has been the Cameroonian coffee sector, but Nigerian cashew and Malian shea sectors have also benefitted.[30] From FY 2008-2011, the WATH facilitated $53.7 million in investment and $8.8 million in loans to 28 export ready companies.[31]

The Trade Hub programs have, up until now, helped in leveraging some equity finance[32], but there is room for a much bigger role for the THs in this area. We believe that the THs could focus more on the galvanization of infrastructure financing for key sectors whose performance impacts the success of trade integration support programs (for example, transport, water, telecommunications and energy). This relates fundamentally to the lack of any direct resources to support or leverage resources for infrastructure financing arrangements. In addition, these are areas that, along to a certain extent with productive sector finance, have been seen as lying mainly within the purview of bilateral programs and with other multilateral donor organizations.

New Opportunities: Recent Trade Hub support programs have and are having an impact on financing availability for value chain partner firms, in particular for farmers. At the same time, the total broadening of the financial access envelope achieved through these programs remains marginal in relation to the operational and capital financing needs of the

[30] WATH *Annual Report*, FY 2012.
[31] WATH *Final Report* FY 2008—12.
[32] In 2012 SATH used a portable DCA for the provision of micro-medium financing in the agricultural value chain and examined doing it for a major local firm, John Deere Angola.

sectors being supported by USAID under Trade Hub programs. In this regard, it should be underscored that there are relatively plentiful regional financial and technical-management resources available that, effectively galvanized, could help address the massive resource constraints which face both potentially competitive productive sectors, as well as key infrastructure service sectors. In particular, financial "hub" areas in SSA control a significant volume of financial and human capital that could and should play a catalytic role in driving the development of regional financing networks and dramatically enhancing the availability of market-based financing for viable firms with strong growth potential in major productive sectors. These same hubs have the financial and technical wherewithal to help spur the application of innovative financing and management oversight structures for infrastructure investments in SSA countries.

Strategic Recommendations:

1. Work on risk management strategy and operational practices with partner institutions. On the banking side, a key to accessing these resources is demonstrating to major financial institutions that the SMEs in general, and those in the agriculture and agribusiness sector in particular, can be serviced in a cost-effective manner through the application of rigorous yet flexible client identification and risk analysis-management policies and procedures. This will entail working inside partner institutions to shift their Mission Statement and their risk analysis/management policies in a manner which allows them to penetrate the SME market on a scalable basis, while keeping operating costs per loan under control.
2. Develop innovative products. This effort will also entail continuing to develop innovative value chain financing products (including warehouse receipts, invoice financing, and purchase order financing)which can help banks meet the range of financing needs of value chain clients, while simultaneously continuing to build the financial literacy of client groups. Since per capita banking coverage in the rural areas in which Trade Hub value chain support programs are working is frequently quite limited, it could also entail working proactively to develop networking relationships between banks and NBFI's to increase the capacity of the latter to receive resources for on-lending. It should also entail more intensive exploration of opportunities for utilizing innovative m-banking and agency banking approaches to effectively expand rural coverage by formal financial institutions.
3. Promote equity financing. On the equity side, an opportunity exists to help galvanize the considerable resources which exist at the regional financial hub level to expand equity and quasi-equity financing availability for SMEs (including first and foremost mid-size anchor firms) in targeted value chains. This would need to entail working with progressive and well-positioned investment advisory firms to develop a pipeline for investments and to help address the most critical issues, namely information asymmetries, risk assessment and management capacity, and legal and regulatory rigidities. All of these limit the galvanization and effective allocation of financial and know-how resources throughout the region.

E. The role of the private sector

The MSTAS Team met with members and officials of business associations at the national and regional levels. They covered a range of business and policy interests, from value chains to general chambers of commerce and legal associations. While our sample was neither large nor scientific, it afforded the team a perspective on the integration process from some of the stakeholders most affected by it. The team sought information on the following topics:

- Which are the most important business associations on a national and regional level in terms of regional economic integration?
- What was the role of these business associations on the regional integration process?
- Could business advocacy play a meaningful role in accelerating the rate of progress and deepening the impact of regional economic integration?
- What are the capacity limitations on business organizations and their counterparts in national governments or in RECs?

It is certainly no surprise that the team found that associations in each country and region vary in accordance with the needs of their members, levels of ambition, coherence of national and regional public institutions, and political and business cultures. For example, Kenya has a robust environment for business advocacy while Tanzania discourages business leadership in civic affairs owing to a more socialistic orientation in the post-independence era.

The team observed that private sector participation and lobbying is an important element in trade facilitation. Private sector associations have been instrumental in promoting important changes and all expressed a desire to do much more.

For example, private sector organizations have taken the lead in pushing for the elimination of NTBs. Several private sector groups gather information on NTBs and subsequently lobby country authorities for their removal. The Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA) does this for Tanzania. The East Africa Business Council (EABC) performs these same tasks on a regional level. In the Southern Africa region, the Federation of East and Southern African Road Transport Associations (FESARTA) does the same for NTBs that affect its members.

Private sector organizations have also been instrumental in speeding up border crossings. They are important advocates for reduced transit times in the three TH regions. In East Africa, the private sector pushed hard for JBCs. Through support to EATH, USAID helped galvanize their role. Similarly, the private sector has pressured officials to establish and maintain Border Information Committees in West Africa and has reduced road harassment and bribes in that same region. Private sector organizations support the NSW in the South. In addition private sector organizations support customs connectivity in the three TH regions.

The MSTAS mission identified donor support to regional private sector organizations, namely Trade Mark East Africa assistance to private sector dialogues within the EAC. USAID also supports the multi-regional African Cotton and Textile Industries Federation (ACTIF) through EATH and several regional associations.[33]

However, there is ample potential to greatly increase the role of the private sector in promoting economic integration and improving the business climate through a nascent advocacy role. In East Africa, the fledging East Africa Business Council (EABC) is weak (it has only two policy/research experts plus its director), but even with severely limited resources, it has actively played an important role in lobbying the EAC and member states to improve policies and regulations, in particular to reduce and eliminate NTBs. In the Southern Africa region, the Director of the South Africa AmCham lamented the marginal role its members play in promoting meaningful change. It also appears that key business associations in the West Africa region – such as AmCham Nigeria and the National Association of Manufacturers of Nigeria – lack the technical resources to play an important advocacy-lobbying role in promoting critical trade and investment-related integration and liberalization reforms.

Strategic Recommendation:

Deepen USAID support to regional private sector entities, especially those that either support progressive policy advocacy or have the potential to do so. Collaboration with business and advocacy groups may prove useful for leveraging their efforts to achieve meaningful change. In particular, this refers to entities such as the EABC. The Trade and Investment Hubs may find valuable returns on their investment by fostering the advocacy capabilities of national and regional business associations. Such interventions as strategic media outreach strategy, advocacy workshops and information dissemination can enable members to exert effective leverage on national governments and RECs to foster regional economic integration and increased trade and investment with the US.

At the same time, some observations are pertinent to many of the region's business associations and could provide useful guidance to the new Trade and Investment Hubs:

1. Build "coalitions of the willing" – many business association advocacy campaigns have been donor-led. Such efforts suffer from donor dependency and are often disregarded by national governments and RECs. They also may crowd out campaigns that could be shaped by indigenous organizations. WATH was proactive in shaping the cashew and shea alliances. Both have made strides toward self-sufficiency. Their sustainability will ultimately depend on achieving independence from donor financing.
2. Protectionism may rule – caution should be exercised in soliciting leadership from certain business associations that are led by firms threatened by competition. Industry federations are often fraught with such conflicting membership motivations.

[33] For example, the East Africa Grain Council in the East, the Global Shea Alliance and the entire cashew value chain in the West as well as the peanut value chain in the South.

3. *Vox Popular* – The voice of the consumer is largely absent from the debate on regional integration. As a rule, consumer groups are weak in Africa. Working with national and regional business media may be useful in galvanizing support for regional integration and promoting greater awareness of and engagement from consumer advocacy groups.
4. Value chains unite –Campaigns advocating regional integration and trade facilitation are often best led by associations organized around value chains. In East Africa, ACTIF and in West Africa the alliances around Shea butter and cashews have accomplished much.
5. Logistics associations – Freight forwarders and road transport or truckers associations appear to among the best advocates of trade facilitation. By definition, such associations are organized across borders and may be the best stewards for monitoring NTBs. Financial institutions and associations representing banks and trade insurance or export credit institutions may also offer useful advocacy.
6. Do not be afraid of hegemons –Kenya and South Africa are the dominant economies in East and Southern Africa, respectively. While many associations in neighboring countries fear being dominated by these economic giants, business associations in these countries have resources and leadership potential to drive the regional integration process. In South Africa, for example, SAPICs is the leading supply chain association in the region and, to our knowledge, has never been a target for Hub engagement.
7. Media outreach – In East and Southern Africa, business media is concentrated in Nairobi and Johannesburg, respectively. There are opportunities to engage these media outlets via press releases, interviews of officials and placement of op-ed articles. There are also specialized publications and websites for logistic companies and producers associations. In West Africa, the media appears more fragmented and, therefore, national media outlets take on more importance.
8. Association development – In order for business associations to play a meaningful advocacy role they need to be equipped with requisite skills and be on sound financial footing. In several instances, we observed difficulty in association to become self-sufficient. In order to attain such independence, a stronger case needs to be made that the association offers services that can benefit members. There are an array of association advocacy capacity development interventions that could be supported by the trade and investment hubs. These associations also offer meaningful opportunities for linking US investors and US exporters to facilitate two way financial flows.

Intensified institutional advocacy and related capacity building efforts represent a crucial investment in the long-term success and inclusive growth impact of the trade and investment integration process. The Trade Hubs will need to work with regional missions and collaborate closely with relevant bilateral missions to choose their flagship intervention activities in this area carefully. However, success in this area will be of fundamental importance in reaching the integration and export and investment promotion goals that the Trade Hubs have been established to support.

F. Increasing Africa's Exports

In the near future, Africa's potential for expanding its non-extractive exports – both within Africa and to the rest of the world – appear to lie principally in the following sectors:

agriculture (including horticulture), processed agriculture goods, textiles and apparel, tourism, and niche products. The MSTAS team has also observed several areas where Africa has ample potential to viably produce several products that it currently imports, particularly food products. In order to realize this potential, practices that discourage trade and investment in agriculture commodities must be curtailed. At the same time, Africa needs to harmonize regional standards, ensure that it meets quality requirements and, if it aspires to export to the rest of the world, ensure that it can comply with the sanitary and phytosanitary standards (SPS) of potential buyers.

Although average tariff rates are now quite modest in SSA, the structure of Most Favored Nation (MFN) tariffs vary substantially. Effective protection rates are high with a built-in anti-export bias. Many NTBs remain in place. As a result, the growth in regional and extra-regional trade has slowed in recent years.

<u>Recommendations</u>:

1. Develop a comprehensive approach to prioritizing and improving institutional compliance with SPS requirements for high potential commodities in major export markets. This will probably require close collaboration with major bilateral programs and at an interagency level. This is especially critical from the perspective of accelerating progress for agricultural exports.
2. Help countries realize the damage done by public sector interventions in markets, particularly in grain markets. Bans and excessive imports by the governments hurt producers, including small, low-income farmers and women. They also stymie potential investment. Trade Hub programs can play a key role in effectively quantifying the costs of these policies and developing policy alternatives.
3. Work to rigorously prioritize high potential value chains within Trade Hub programs, through the application of Domestic Resource Cost (DRC) analysis and Cost-benefit Analysis (CBA) principles. TH programs should also promote rigorous qualitative analysis approaches that focus on prospective market demand trends and competitiveness trends in competitor countries and regions. Hubs should aim to develop strategic competitiveness enhancement game plans at the subsector level TH and, where relevant, for bilateral program implementation.

II. Proposed MSTAS Research and Analysis

This section contains a research agenda aimed at the principal issues identified in Section I of this report. The proposed agenda reflects discussions held in December 2013 with AFR/SD, the Regional Missions, and other relevant USAID Offices and USG partners during the Africa Trade Hub Workshop. A report contains the principal conclusions of the workshop.[34] These same topics were validated and updated during the March 2014 field

[34] USAID, *Trade Hub Workshop Report, December 17-19, 2013*, January 2014.

mission through further consultations with USAID, the Trade Hubs and their corresponding stakeholders. Subsequent consultations with USAID, including teleconferences with Regional Mission participation, helped the MSTAS team prioritize the research and analysis agenda presented in this section. As underscored in Section I, the research – whenever possible – will be done in collaboration with key SSA private sector associations, Regional Economic Communities (RECs) and/or think-tank institutions with a mandate to promote trade, integration and investment.[35]

In consultation with USAID, MSTAS believes that the four proposals for research and analysis presented below are of the highest priority and that they should begin as soon as possible. All four are considered to all be of roughly the same priority.

A. Highest Priorities

1. Address NTBs

As noted previously in this report, non-tariff barriers (NTBs) plague the regions spanned by the three trade hubs. The lesson from successful regional integration experiences elsewhere in the world is that addressing tariff barriers is not sufficient to enhance trade. Countries must also address non-tariff barriers (NTBs).

Gap analyses conducted by the World Bank/IFC, and discussions with TradeMark East Africa (TMEA) and the private sector, demonstrate the high incidence of NTBs as critical obstacles to regional integration in East Africa. Of these, sanitary and phytosanitary (SPS) measures, rules of origin, charges of equivalent effect to tariffs, and technical barriers to trade (TBTs) are among the most common among NTBs in EAC region[36]. They reduce regional trade and drive up costs along the value chain. While EATH has led regional harmonization of standards for staple foods, there are number of facets of SPS, both *de jure* and *de facto*, that need to be addressed, such as certification processes, licensing requirements, the imposition of other charges that effectively raise the cost of trade between members, and regional rules of origin.

In the Southern African context, some barriers are so restrictive that preferential trade is effectively prohibited, for example for wheat flour. In addition, among key NTBs identified include restrictive rules of origin guidelines and interpretations; cumbersome import and export documentation and procedures; distortive import and export licensing/permitting practices; import and export quotas; import bans and prohibitions; import charges not falling within the definition of import duties. Similarly, discussions with EATH stakeholders

[35] In addition to the research agenda presented below, it should be noted that MSTAS is currently gearing up for development of a Trade Facilitation Program in SADC. Along with E3, the Southern Africa Regional Mission, and UNECA, MSTAS is identifying a team to carry out this work. It is expected to be done over approximately ten weeks, commencing in July 2014. This important analytical exercise will provide an opportunity to develop a prioritized action plan with SADC to help address key trade transit, customs harmonization, and NTB themes in a systemic manner.

[36] See IFC, *East Africa Common Market Scorecard*, 2014, available on the internet.

reveal widespread use of as seasonal and quantity restrictions among ECOWAS member countries.

Recommendations:

The MSTAS Team proposes a four-pronged approach to deal with NTBs at their core:

First document their importance in the West and South of NTBs through an exercise similar to the recently completed Scorecard in the East.

Second, recommend ways to document, strengthen and consolidate individual efforts to gather information on NTBs, followed by recommendations to assemble them and then to confront authorities who have the power to reduce or eliminate the NTBs. As noted earlier in this report, several entities collect, gather, process and present information on NTBs to national authorities. We recommend that USAID support the broadening and centralization of this reporting process. The private sector is the entity which most loses through NTBs[37], and initial discussions with private sector organizations indicates that they would support efforts to strengthen the documentation, consolidation and lobbying to eliminate NTBs. To the extent that private sector organizations or apex organizations, such as the EABC which expressed strong opposition to NTBs, support these efforts, they may merit encouragement from USAID.

Third, document the impact of NTBs. This is critical to encouraging regions and countries to take measures to discourage NTBs. Once the most critical and pervasive NTBs are identified through private sector surveys and existing assessments[38], undertake an analysis of their price raising effects, using the "price-wedge" concept to capture and clarify the distortive impact of the largest and most important NTBs on trade, competitiveness and consumer welfare. As needed, Regulatory Impact Analysis (RIA) in one or more regions may also provide a tool to assess the costs and benefits of NTBs. Applying price-wedge analysis and RIA to a specified number of key NTBs and training stakeholders to use this analysis would help proliferate the use of these techniques. These would first be applied to the most serious and pervasive NTBs.

Fourth, seek a legal solution to NTBs that will require countries to seek approval of a regional authority prior to applying new NTBs. This might require RIA prior to introducing an NTB. Though he first through third recommendations mentioned above do not serve to frontally attack NTBs at their roots, this type of measure would directly do so. The possibility of introducing this type of measure can probably best be analyzed in the East, because EAC law officially takes precedence over national law.

[37] However, some private organizations lobby for the protection that they receive through NTBs which act as barriers to their competitors.
[38] Such as the previously cited East Africa Common Market Scorecard.

2. Develop an African Financial Access Promotion Platform

The key question each Regional Mission faces is how to achieve a transformational expansion in sustainable access to working and investment capital resources, given the decisive limitation in resources, as well as the potential overlap with bilateral mission programmatic purview. One strategic option which we think could be worth exploring in some depth is the formation of a type of Technical Advisory Services Team (TAS) attached to a lead Trade Hub, with satellite staff in the adjoining Trade Hubs. This team would be equipped with experts in debt and equity and quasi-equity finance and product development. It would have the capacity to access, on a regular basis, senior sectoral experts (for example, agribusiness, textiles and apparel, handicrafts, tourism) as needed. It would also have access to short-term experts on critical thematic issues such as m-banking and branchless banking, harmonized prudential oversight requirements, and payment infrastructure integration requirements. In addition, the team would be charged with maintaining an integrated dialogue with a selected group of major bilateral missions in the SSA. These missions could be chosen on the basis of the interest and the strength of their bilateral value chain support programs; as well as the relative market-friendliness of their financial sector and contract enforcement legal and regulatory environments.

The TAS would under such a scenario work in close coordination with their bilateral USAID project counterparts to assess prospective demand for debt and equity resources for SMEs within the major value chains they are working on in their countries; and support the development of a "pipeline" for debt and equity financing mechanisms. The programs would effectively be compartmentalized: smaller-scale SME debt financing for firms along the value chain and equity and mezzanine debt financing for apex firms.[39] Taking a cue from the West Africa Trade Hub's incentive-based program, the compensation of the TAS could be directly tied to their capacity to leverage financing from financial sector partner institutions. In turn specific MOUs could be developed with these institutions laying out clear performance targets and concomitant resource commitments on their part. While this type of program would necessarily require a significantly greater allocation of TA and training resources and more intensive management oversight than that provided under any Trade Hub program previously, the prospective impact on financial sector access and value chain expansion could be considerable.

On the infrastructure finance side, a support program could be envisaged which would target investment management companies with the capacity to galvanize the needed financial resources and specialized technical-management capacity to facilitate additional private investment in infrastructure service areas where private sector provision of services already predominates (for example, internet service provision, trucking transport

[39] Business Partners Limited (BPL) is an example of a company that might be a recipient of this type of support. Founded in 1981, it is a shareholder-owner South African specialty risk-finance group that lends to SMEs. It has an investment portfolio of more than $330 million and has supported about 33,000 SMEs in 70,000 transactions. Most loans range from $30,000 to $3 million. It claims to have created or sustained more than 550,000 jobs. BPL has averaged a seven percent return on equity from 2003 to 2013. The Managing Director expressed interest in working with USAID to expand BPL's operations.

services). A TAS infrastructure finance sub-team could provide specialized support (in coordination with relevant bilateral mission programs) in defining key investment/management service needs, and also in promoting as needed the prior or corollary legal and regulatory reforms required to create a viable enabling environment landscape for additional investment in the targeted sector. The TAS might also consider targeted technical training support services as needed to facilitate the design and implementation of related reforms to help harmonize relevant cross-border legal and regulatory provisions (for example, bond insurance provisions for trucking fleets) needed to mitigate investor risk.

For key physical and social infrastructure sectors where PPP arrangements are important to drive increased investment and improved service provision (for example, for port/railway privatization, airport services and municipal infrastructure),[40] the TAS could work with the relevant bilateral missions to facilitate pre-due diligence feasibility analysis work and promote inter-institutional consensus to move forward. It would also again focus on priority required legal and regulatory reforms. In addition it could potentially draw on and contract the services of relevant South African experts and investment advisory firms with specialized expertise in the due diligence and deal structuring requirements for PPP transactions in the relevant infrastructure sector or sectors. Finally, in selected countries the TAS could work with bilateral mission counterparts to facilitate the development of a bond issuance and partial guarantee mechanism which would facilitate bond financing to help co-finance the targeted infrastructure projects; and/or to implicitly lower the contingency risk for private sector investors and operators who participate in PPP arrangements.

Again the scaling of technical training and institutional linkage efforts of this nature will need to be determined by the availability of funding support at the Trade Hub level. Any programs of this nature would require close collaboration and, at times, joint implementation by a given Trade Hub and by the relevant bilateral mission(s).

In addition, there is need to undertake a detailed scoping assessment of the legal/regulatory harmonization and effective technical and market linkage support strategy required to leverage regional financial "hub" network resources to drive improved access to finance across the SSA. This analysis could focus initially on Southern Africa, and include development of a detailed game-plan for tapping into the financial and technical resource base in South Africa to spur competitive access to financial resources throughout the SSA.

3. Strengthen regional linkages on the cotton-textile-apparel (CTA) value chain and its link to AGOA

All three Trade Hubs are actively engaged in promoting exports from their respective regions to the United States under AGOA. Each has facilitated the development of national strategies to exploit AGOA benefits in various sectors. Textiles and apparel have been a

[40] It is assumed that financial linkages involving the power sector will be handled under Power Africa initiatives.

major focus of both East Africa and Southern Africa, while West Africa has focused on agricultural exports, particularly cashew and shea. While these nationally focused strategies have supported increased exports, especially to the United States, little attention has been given to integrating the export development strategies across countries and regions to promote regional and pan-African integration. Yet it is widely accepted – and borne out by ASEAN experience – that the complementarities of a regional value chain focus can take advantage of competitive synergies to successfully exploit the vast opportunities offered by global value chain integration.

Increasing the trade capacity of regional value chains by establishing new trade links within Sub-Saharan Africa (SSA) has the potential to increase the competitiveness of export-oriented value chains. With wages rising in China, it is expected that buyers will begin looking to new markets for sourcing—particularly for lower value, mass market products— opening new opportunities for countries in SSA to enter the value chain and capture a larger share of the market. However, in order to take full advantage of this opportunity, countries in SSA need to develop coherent regional strategies and implementation plans. Thus far, the AGOA strategies and related implementation efforts have not fully considered potential synergies between countries and regions that would support greater vertical integration and increase competitiveness.

Yet forthcoming AGOA negotiations may provide an opportunity to develop and deepen Africa-wide value chains. In particular the CTA value chain might be developed to use cotton and yarn produced in the West to supply apparel manufactures in the East and South. AGOA negotiations may serve as an opportunity to put into place measures that would make these linkages viable.[41]

Recommendation: The objective of this analysis is to develop a competitive pan-African CTA value chain that is capable of effectively linked to the global CTA value chain. The analysis would entail an in-depth analysis of the potential for enhanced regional value chain linkages across countries and regions in SSA. It would also assess relevant trade policies, infrastructure and regulatory aspects in SSA, including Rules of Origin (RoO) and possible reforms conducive to regional CTA value chains that are competitive on global markets. The analysis will provide a recommended set of key trade policy and institutional reform priorities for each REC. It will also recommend programming priorities for each TH to help SSA realize its potential to increase its competitiveness along the CTA value chain.

The African Cotton and Textile Industries Federation (ACTIF), an organization representing the textile and apparel industry in Africa, expressed an interest in collaborating with MSTAS on a pan-African value chain diagnostics and programming road map. This analysis will be carried out in close collaboration with ACTIF.

The development of a pan-African textile and apparel value chain has the potential to both broaden and deepen the benefits of AGOA, involving more countries through stronger

[41] Rick Gurley has prepared a strategic review of regional textiles value chain development constraints and opportunities, from the Southern Africa perspective, which could help inform further analysis on this topic.

vertical linkages, incorporating cotton growers from across the continent (e.g. Tanzania, Benin, and Malawi) into the supply chain. If successful, this effort could serve as an example to spark to develop other multiregional value chains in Africa.

4. Develop a plan for implementation of the WTO Bali Agreement

At the 9th World Trade Organization (WTO) Ministerial Conference held in Bali from December 3-6, 2013, came a historic landmark agreement heralded to create 20 million jobs and a trillion dollars in annual global economic gains.[42] While some observers criticized the comprehensiveness of the agreement, major donors and U.S. Trade specialists cited the importance of the Trade Facilitation Agreement, in particular, and its estimated impact on jobs, exports, and GDP in Least Developed Countries (LDCs) and other developing countries, including those in sub-Saharan Africa (SSA). A study by the World Economic Forum finds significant gains from implementing trade facilitation protocols, even halfway to the global best practice, would raise global GDP by an estimated $2.6 trillion (4.7%).[43]

The Agreement on Trade Facilitation is the largest component of the Bali package, containing a number of new binding provisions. It also has the largest potential impacts relating to the developing world, LDCs, and SSA in particular. The core components of the Trade Facilitation Agreement are designed to increase transparency (publically available information, timely decisions) and streamline customs procedures to reduce delays at the borders. The progress on trade facilitation is likely to benefit SSA exporters, which face some of the highest trans-border transport costs in the world. If implementation of trade facilitation measures is successful, it will lower costs of African exports, increasing their global competitiveness. Likewise, trade facilitation measures can decrease the cost of imports, making goods cheaper for consumers. Given the proportion of intra-regional trade that is staple foods, the adoption of the Agreement will likely have significant impacts on food security across the region, extending the benefits of trade facilitation initiatives that have largely focused on intra-regional trade within each of SSA's Regional Economic Communities (RECs) and extend the benefits to inter-REC trade.

<u>Recommendation</u>: MSTAS suggests that consideration also be given to the use of MSTAS resources to work with E3 and the Trade Hubs in a way that will help the countries in their respective regions strengthen and accelerate implementation of the trade facilitation provisions of the Bali Trade Facilitation Agreement and at the same time to take advantage of special provisions that are especially advantageous to low-income countries.[44] USAID programming can play an important role in assisting SSA countries to adapt their trade environments to the new rules set for at Bali. The Trade Hubs can, in particular, assist SSA countries to adopt the provisions of the Trade Facilitation Agreement, including those involved in publishing information online or ensuring that it is publically available to

---

[42] Based on estimations made in the April 2013 Peterson Institute for International Economics Report.

[43] USAID, *A Comprehensive Approach to Trade Facilitation and Capacity Building: Connecting Developing Countries to Supply Chains*, March 2014, 12.

[44] See USAID, *A Comprehensive Approach to Trade Facilitation and Capacity Building: Connecting Developing Countries to Supply Chains*, March 2014.

interested parties, establishing a single window, accepting electronic payment and copies, complying with advance rulings, and expedited shipping.

With the more than one decade of Trade Hub assistance, many countries in SSA are well placed to adopt most of the provisions with immediate effect or with a short transition period. USAID should work with the Trade Hubs to explain, disseminate, and otherwise help SSA firms to take advantage of assistance from the U.S. Government. USAID can work with countries to determine which provisions should be in Category B and Category C, target implementation dates for such provisions, and identify the type and amount of assistance and/or technical support required for full implementation.

B. Other High Priority Topics

Other high priority topics for analysis and research – but just below the priorities assigned to the four foregoing topics -- that the MSTAS team also believes are important are summarized and prioritized below:[45]

1. Trade in Services

While the three regions have developed and implemented frameworks to facilitate trade in goods, the full benefits of trade integration are contingent upon progress in trade in services. Services are critical inputs to export value chains and offer a much-needed opportunity for countries to diversify their export portfolios. Moreover, exports of services appear be of particular importance for land-locked countries for whom opportunities to diversify into the export of manufactures are more limited by the high costs of transport and other essential services (e.g. next generation telecom services). Liberalizing trade in services is essential to increase competition through greater efficiencies in services sectors and through enhanced flows of information and investment resources which typically result from service sector liberalization progress. Competition pushes service suppliers to reduce waste, improve management, and reduce operating costs. In addition, open regional services markets should mean an opportunity for US companies that have unrivaled comparative advantage over its competitors. The theme is, therefore, central to USAID strategic programming objectives[46].

Recommendations:

- ECOWAS countries have signed an agreement on transport services. Though implementation may not yet be fully realized, the fact that the agreement was signed indicates that there is sufficient political will to finalize a regional

[45] Although prioritized on the basis of discussions with USAID, the MSTAS team realizes that the priorities are still subject to additional reviews and possible modifications.

[46] This report does not recommend that USAID support the integration of all services. It clearly cannot do this. But in light of the tremendous competitive advantages inherent for regions with harmonized and integrated services, the MSTAS team recommends that the importance of service integration – and possible support of others to service integration as well as how USAID may leverage and support the work of others – be considered when designing programs of support. Key areas of support will necessarily differ over countries and regions.

approach to transportation in West Africa. A targeted research/analysis effort can be undertaken which empowers the ECOWAS Transport & Telecommunications Secretariat to analyze and develop an in-depth time-framed roadmap to prioritize and facilitate initial implementation of resulting recommendations. The results of this analysis can also be discussed with relevant REC counterparts in EAC and SADC to spur consideration of the benefits of such an agreement for those regions.

- A targeted research/analysis effort could be undertaken to help the ECOWAS Transport & Telecommunications Secretariat to analyze and prioritize the most important legal/regulatory barriers to trade in and development of next generation telecommunications services within ECOWAS, and to develop a detailed time-framed roadmap for effectively addressing them.

2. FDI Promotion Constraints/Opportunities

FDI is taking on a growing role in Trade Hub core objective of Trade Hub support programs. FDI in non-natural resource extraction sectors remains anemic in most SSA countries. Nonetheless FDI has a critical role to play in productivity-enhancement, improved access to technology and markets, and facilitating compliance with export quality standards. Broadening and deepening FDI sources is critical for SSA countries from a sustainable competitiveness enhancement perspective. Enhancing U.S. FDI inflows is also crucial from the narrower perspective of maximizing the benefits from AGOA.

Recommendations:

A targeted research/analysis effort will be undertaken at the regional level which focuses on the major constraints limiting international investor presence in major non-natural resource extraction based value chains. This should focus on investor protection, contract enforcement, and core commercial and property rights areas, as well as on regional trade and financial market integration issues. It should prioritize measures which would need to be taken at the regional level and those that would need to be addressed at the national level to address these issues. West Africa could represent an interesting initial target for this analytical effort, given the plethora of investment climate issues which need to be addressed in ECOWAS countries. This research would be coordinated with ECOWAS and regional think-tank organizations.

Even if USAID cannot participate in the financing of major infrastructure projects, it can help countries and regions identify priority investments. Recently USAID has greatly strengthened its abilities to use Cost-benefit analysis to identify and carry out priority investment. We suggest that THs consider promoting this technique for prioritizing priority investments.

Our recommendations for promoting investments also recognize the crucial nature of improving access to financing. This would greatly reduce one of the most crucial barriers to increased investment.

3. Gender and Informal Trade

Women feature significantly in trade in SSA—they carry goods across borders, make products (especially food) for export, and own and manage trade-oriented firms. But female producers and traders often face specific constraints that undermine their economic activities. Female traders working in the informal sector are often subject to harassment and extortion at the border, and women are more readily denied access to key trading networks than men. Facilitating improved livelihoods for women can have a significant impact on poverty, education, and health outcomes (an under-researched theme). All of these themes underpin Trade Africa and FTF operational objectives.

The three USAID Hub programs have made important advances in incorporating the gender dimension into TH programs. For example, WATH has supported the Global Shea Alliance (GSA), a likely example of a best practice benefitting women. The GSA provides an illustrative example of the mechanics of gender and trade in Africa. Dubbed "Women's Gold" in Africa, shea nuts help thousands of West African women to supplement their family's incomes. In fact, GSA quoted that some 16 million rural women are engaged in collecting and selling shea nuts. Market power asymmetry and exploitation is, nevertheless, still a reality in the shea commodity chain: local trading channels of shea products are dominated by a few intermediaries, dominated by traders that distort the orderly functioning of the market. Traders buy shea products from individual women at the lowest possible price and do not offer higher prices for higher quality products. Lack of price differentiation is detrimental to women's incomes, but it also removes any incentive to improve the quality of the products. Such a situation is exacerbated because often the trader is also the only source of information on prices and other relevant market information.

<u>Recommendations</u>**:**

- MSTAS proposes a multi-faceted analysis of constraints women face in engaging in trade in SSA, which includes the policy barriers that impinge on women traders at borders. The analysis would identify the transactions costs that may disproportionately affect women traders, the institutional and the infrastructure interventions that could help facilitate women traders, which will lead to a set of key recommendations to help policymakers facilitate female participation in trade through a cross-sectoral programmatic plan. This could be studied in-depth initially with participation of one regional mission/Trade Hub.
- MSTAS could assist the GSA's efforts by conducting an analytical assessment of the market structure in a way that might strengthen the position of rural women engaged shea, explore the formation of industry associations to enable them to source inputs collectively and gain access to financing. It might also explore modalities to provide them with more power to negotiate with traders.
- MSTAS would also document and demonstrate the linkages between projects such as this and strong, crosscutting linkages between market structure and poverty reduction, improved health and education for rural Africans.

4. Tax policy Harmonization

Countries often do not agree to harmonize tax policies because they do not fully understand the revenue implications of the measures. This is especially serious for countries with fragile tax bases, as is the case in most of Africa. In the EAC Burundi and Tanzania have hesitated to implement new policies. But key tax changes are needed for stronger economic integration:

- Elimination of double taxation (see above)
- Allowing one visa for visits to the EAC, rather than a separate visa for each country
- Eliminating municipal taxes on trade and finding ways to compensate municipalities for the loss of revenue. Municipal taxes, namely those levied at checkpoints on major transport routes, constitute important NTBs, not only because of the cost of the taxes, but also because of the travel time lost at the numerous checkpoints in several countries. This is further exacerbated by the rent-seeking opportunities available to officials at the same checkpoints.

Recommendations: Work with regional (EAC) and relevant country authorities to help countries assess the impact of changes in tax policy, including in the areas mentioned above, and to implement the measures in ways that mitigate losses. This analysis would estimate the gains and losses associated with policy changes. It could also be expanded to identify ways to compensate the losers. This could initially be done on a pilot basis with the EAC (and in coordination with the East African Business Council (EABC) to incorporate multi-stakeholder input). It could then be potentially extended to other regions.

5. Quantitative estimate of the benefits of integration

One of the key missing inputs to promote greater regional integration in SSA – including hesitation in implementing already agreed upon measures, is the lack of systemic analyses that demonstrate the potential costs and benefits of reforms. For example a recent analysis in ECOWAS commissioned by the Government of Nigeria at the request of ECOWAS has been discredited by an EU review panel due to weak theoretical assumptions in modeling the general equilibrium framework. In light of previously noted lethargy in following through on reforms, there is an urgency in equipping the REC Secretariats with rigorous analyses, the translation of results into easy-to-understand findings, and follow-up technical assistance to ensure that the RECs can disseminate the results effectively to a "coalition of the willing" and through the inter-ministerial committees of their respective governments.

Examples in other countries have demonstrated that well-constructed CGE models can and do document the benefits of trade and integration. NTBs have been successfully integrated into at least one of these models, and MSTAS proposes that this type of model be used to demonstrate the gains from more trade and integration in SSA. Much of the basic information needed for CGEs comes from readily available national accounts. Depending on the prevailing circumstances in different regions, harder to estimated variables could be estimated and simulated. The sophistication of the models and the ability to capture the effects of difficult to estimate variables has advanced considerably in recent years.

<u>Recommendation</u>: Adopt a two-pronged analytical strategy. First, a major emphasis in this study will be the use of a computable general equilibrium (CGE). A CGE model is one of the most rigorous quantitative methods to evaluate the impact of economic and policy shocks – particularly those associated with policy reforms. In comparison to other techniques, CGE analysis captures a wider set of economic impacts derived from a shock or the implementation of a specific policy reform. Multi-region CGE models are the best choice because they can perform economic cost-benefit analysis for different trade integration options, which is critical for estimating the aggregate impacts on trade, production, employment, fiscal balance, household income, and even poverty and inequality. Dynamic CGE is further appealing in dealing with the impact of improved market access and connectivity on trade in goods (in case of sectoral trade), when done in conjunction with partial equilibrium modeling to estimate the static aspects. Estimated results from a partial equilibrium model help us to estimate the potential, whereas the same from the dynamic CGE model tell us the way forward.

Through this study, we will also assess how important traded goods and services sector growth are to their real economies, the size and performance of their domestic manufacturing and services export sectors, and the domestic constraints they face (tariffs, skills, technology, infrastructure and other).

We believe that USAID/West Africa has prepared an analysis on the benefits of trade that could serve as a useful input for further research. We would build on this analysis. It appears that neither East Africa nor West Africa has benefited from recent analysis of this nature, which could be very useful for building consensus on and addressing common misconceptions regarding the prospective impact of trade integration activities from an intraregional and pan-African synergies perspective.

6. Staple Foods

The Feed the Future program forms one of the principal pillars of the Trade Hub program. Each of the three Hubs have supported, to varying degrees, structured trade mechanisms to better integrate smallholders into the formal market and provide them with greater access to finance, facilitate trade within and across borders, and enhance regional food security. Meetings with stakeholders in East Africa provided an overview of these measures and the challenges to their implementation. However, the impact of these mechanisms on intra-regional trade in staples and on food security remains unclear.

A recent World Bank paper[47] described the evolution of retail supermarket chain in the EAC, but did not address the effects on smallholder farmers (who are mostly left out of the supermarket value chain) or attempt to quantify the benefits for exports, production, or employment. The paper implies that increasing formal distribution networks in EA would

[47] De-Fragmenting Africa, World Bank, 2012.

benefit farmers, reduce poverty, and improve food security, but does not provide specific information on these benefits.

Recommendations: MSTAS could research and deliver an analysis of the market structure for staple foods within a particular region, filling some of the gaps in the World Bank's analysis. For example, the paper finds that regulatory measures limit operations in East African markets—particularly price regulations on essential goods, which are prevalent in most countries in the region. Furthermore, there are policy induced barriers such as export bans, export quotas, voluntary export restraints, import bans, floor prices and other distortions that need to be evaluated for select staple foods. The existences of cartels that control the prices of these goods add to constraints and provide an opportunity for more research to highlight the consequences of this market structure and to explore possible policy solutions. Those most likely to benefit from interventions in this area are the unskilled female workers that make up informal agricultural trade in SSA, a key constituency of USAID programming objectives. The analysis will review the costs and benefits of crucial policy changes, identifying the parties who most gain and lose. Where appropriate, the analysis may propose offsetting measures to compensate losers. The core elements of this research agenda could be carried out in collaboration with important regional research/advocacy organizations such as EABC and RESAKSS in East Africa (it would make most sense to carry this work out initially in EAC, which probably has the best available information, and then possibly to expand it to other regions) .

7. Trade Facilitation: Developing a Roadmap for Action in West Africa, to Implement ICT Customs Connectivity System

The East Africa Trade Hub has worked extensively with harmonizing ICT customs systems in the region, and partnered with the Southern Africa Trade Hub to disseminate this system in Southern Africa. West Africa has focused on management of important trade corridors and border posts, but could benefit from the experiences of the other Hubs in sharing customs information electronically between governments.

Recommendations: MSTAS would build off of the work already done in order to develop a roadmap for action in West Africa, assisting the West Africa Trade Hub in marshaling support within countries to further strengthen ICT customs connectivity.

8. Aviation Policy/Regulatory Harmonization

This is a special, but critical, component of promoting a more effective trade in services (mentioned above). A critical deficiency in improving intra-regional trade is lack of Open Skies arrangements in African air transport. Many African countries restrict their air services markets to protect the share held by state-owned air carriers. To address this market distortion, African ministers responsible for civil aviation adopted the Yamoussoukro Decision on the liberalization of access to air transport markets in Africa on November 14, 1999 (UNECA 1999). The Yamoussoukro Decision, which covers most African countries, allows the multilateral exchange of up to fifth freedom air traffic rights between Yamoussoukro Decision parties using a simple notification procedure. However, the implementation of this information exchange has been undermined by the continuing protection of in state-owned air carriers. Most SSA countries agree that the strict regulatory protection that sustains such carriers has detrimental effects on air safety records, and artificially inflates airfares while dampening air traffic growth. Specifically, the Yamoussoukro Decision calls for, among others:

- Full liberalization of intra-African air transport services in terms of access, capacity, frequency, and tariffs
- Free exercise of first, second, third, fourth and fifth freedom rights for passenger and freight air services by eligible airlines (These rights, granted by most international air service agreements, enable, among others, non-national carriers to land in a state and take on traffic coming from or destined for a third state.)
- Liberalized tariffs and fair competition
- Compliance with established ICAO safety standards and recommended practices

<u>Recommendations</u>**:** Because the private sector has the most to gain from liberalization of air services, they will be a key ally for USAID in seeking to improve implementation of the Yamoussoukro Decision. In this regard a targeted analysis of legal/regulatory harmonization requirements and for and related benefits from a liberalized aviation policy framework at the regional level could be undertaken for EAC with the proactive participation of the East African Business Council (EABC).

Appendix A: Persons interviewed during Diagnostic Trip

Institution	Name	Position
EAST AFRICA TRADE HUB		
KENYA		
USAID East Africa	Kaarli Sundsmo	Regional FtF Coordinator and Grants Manager
USAID East Africa	Ali Mohamed Ali	Regional Acquisition & Assistance Specialist
USAID East Africa	Maurice Ogutu	Agriculture Development Officer Regional Economic Growth and Integration
COMPETE	Vincent Kaabunga	Knowledge Management Specialist
USAID	Matt Rees	Senior Regional Trade Advisor Power Africa and Trade Africa Lead
USAID	Michelle Bahk	Regional Trade Advisor-Power Africa and Trade Africa Initiatives
USAID	Kenneth Kambona	Project Management Specialist-Private Sector-Markets Development- Trade Promotion
USAID Trade Hub East Africa	Isaac Tallam	Regional Grain Trade Advisor
USAID Trade Hub East Africa	Kathleen Montgomory	Chief of Party /POC
USAID Trade Hub East Africa	Bernard Kariga	Senior Trade Policy Advisor
USAID Trade Hub East Africa	Finn Holm-Olsen	AGOA Trade Advisor
USAID Trade Hub East Africa	Wes Carter	Communications & Knowledge Management Coordinator
USAID Trade Hub East Africa	JC Mazingue	Apparel Trade Advisor
USAID Trade Hub East Africa	Glenn Wood	Impact Analysis Advisor
USAID Trade Hub East Africa	Don Greenberg	Structured Trade Team Leader
Trade Mark East Africa	Nina Wabuke	Results Programme Manager
Trade Mark East Africa	Scott Allen	Deputy Chief Executive Officer-Regional Programmes
Kenya Transporters Association	Stephen Ogolla	Programme Officer
Kenya Transporters Association	Mercy Ireri	Administrative Assistant
IFC	Alfred Ombudo K'Ombudo	EAC Common Markets Diagnostics World Bank Group
International Livestock Research	Joseph Karugia	Coordinator ReSAKKS-ECA

Institute-CGIAR		
Measure Africa	Maureen Wang'ati	Executive Director-Evaluation Specialist
Embassy of Sweden	Peter Cederblad	First Secretary trade and Regional Integration Programme Manager/Deputy Head of Regional Development
African Art	Ruth Nyakundi and Christopher Oywecha	Artists
Sanabora Design House Limited	Beatrice Mwasi	Managing Director
Financial Services Volunteer Corps	Silas Karuku	Regional Director
Financial Services Volunteer Corps	Joe Williams	Managing Director
Federation of East African Freight Forwarders Association	John Mathenge	Executive Director
ACTIF	Rajeev Arora	Executive Director
Mohozo Ethnic Spirit	Zohra A. Baraka	Executive Director
Benchmark Solutions	Laura Akunga	Group CEO +AWEP Deputy Vice Chair
Benchmark Solutions	Damaris K. Nyabuti	Head of Communiations and PA to CEO
Center for Business Innovation Training	Beatrice Mwasi	Lead Consultant
African Trade Insurance Agency	George O. Otieno	Chief Executive Officer
AESDC	David Adolwa	Technical Director
TripleOKLaw Advocates	Tom O. Onyanko	Partner and Head of Real Estate & Conveyancing
AWEP	Nancy Gitonga	CEO
DFID	Tim Lamont	Regional Growth Trade and Investment Advisor
Institute of Economic Affairs	Kwame Owino	Chief Executive Officer
African Economic Research Consortium	Damiano Kulundu Manda	Manager, Research
Compete	Winnie Gecaga	Contract and Grants Manager
East Africa Grain Council	Samwel Rutto	Regional Manager, Structured Trading Systems
Central Bank of Kenya	Stephen Mwaura Nduati	Head, National Payments System
ACTIF	Joseph Nyagari	Program& ICT Manager
USAID East Africa	Stephen Gudz	Agriculture Team Leader Regional Economic Growth & Integration Office
Trade Mark East Africa	Allan Ngugi	PSO/CSO Programme Officer

African Economic Research Consortium	Samuel Mazera Mwakubo	Manager, Research
African Economic Research Consortium	Dr. Witness Simbanegavi	Director of Research
World Bank	Peter Fernandes Cardy	Senior Operations Officer Regional Integration Department Africa Region
Trade Mark East Africa	Mary Odongo	Programme Officer Transport &Economic Corridor
USAID	Nzuki Mwania	Project Management Specialist (Customs and Transit)
Eastern Africa Grain Council	Hellen Natu Ph. D	Trade & Policy Expert
Kenya Tourism Federation	Agatha N. Juma	Chief Executive Officer
Sarova Whitesands Beach Resort and Spa	Gindo Mwadima	Operator
TANZANIA		
East African Community	Marwa Moses	Principal Agricultural Economist
East African Community	David K. Wafula	Agricultural Program Support Specialist
East African Community	Peter Nginga Kituga	Director General Customs and Trade
East African Community	Willy Musinguzi	Principal Standards Officer
East African Community	Dorica Suvye Phiri	Trade Advisor
East African Community	Marie Angelique Umulisa	Regional Trade Advisor
East African Community	Marwa Moses	
East African Business Council	Andrew Luzze Kaggwa	Executive Director
Kamal Agro LTD.	Joe C.B. Kabissa	Executive Director

SOUTHERN AFRICA TRADE HUB		
SOUTH AFRICA		
USAID Southern Africa	Mark Wilt	Regional Economic Growth Office Director
USAID Southern Africa	Patrica R. Masanganise	Senior Agricultural Development Specialist
DFID Southern Africa	Philip Brown	Senior Regional Trade & Integration Advisor
DFID Southern Africa	Tim McNeill	Private Sector Advisor
International Water Management Institute	Pius Chilonda	Head of IWMI

International Water Management Institute	Sibusiso Nhlengethwa	Research Officer-Statistics
International Water Management Institute	Greenwell Collins Matchaya	Researcher-Economics/ReSAKKS-SA Coordinator
Capstone Seeds South Africa	Andrew Taylor	Managing Director
TIPS	Ximena Gonzalez-Nunez	Executive Director
South African Association of Freight Forwarders	Philip Wyllie	Consultant
Advance Seed-SANSOR	Brian Lever	Managing Director
Maputo Corridor Logistics Initiative	Barbara Mommen	Director General
GIZ	Christiane Kalle	Regional Director
FESARTA	Barney M.W. Curtis	Executive Director
AMCHAM in South Africa	Carol O'Brien	Executive Director
Africa @ Work Advisory & Consulting	Dianna Games	Chief Executive
South African Institute of International Affairs	Catherine Grant	Economic Diplomacy Programme
BOTSWANA		
USAID Southern Africa	Rick Gurley	Regional Trade Advisor
US Embassy Gaborone	Katherine Duffy Dueholm	Political/Economic Counselor
USAID Southern Africa Trade Hub	John James	Chief of Party
USAID Southern Africa Trade Hub	Robert Turner	Deputy Chief of Party/Technical Director-Agriculture
USAID Southern Africa Trade Hub	Alexander Filippov	Director-Clean Energy
USAID Southern Africa Trade Hub	George Makore	Enabling Environment Director
USAID Southern Africa Trade Hub	Lawrence Kubanga	Monitoring & Evaluation Specialist
Botswana Trade & Investment Center	Dipopego Julius Tsheko	Project Manager-Global Expo Botswana
Tutume Sub Council	Lawrence A. B. Mazinyane	Senior Assistant Council Secretary
Econsult	Keith Jefferis	Managing Director
De Beers Group	Andy Bolton	Senior VP-Supply Chain Global Sighholder Sales
Botswana Unified Revenue Service	Keneilwe R. Morris	Commissionner General
Botswana Unified Revenue Service	Phodiso P. Valashia	Commissionner-Customs and Excise

Botswana Unified Revenue Service	Segolo Lekau	Commissionner-Internal Revenue
Botswana Investment & Trade Center	Dipopego Julius Tsheko	Project Manager Global Expo Botswana
Center for the Development of Enterprise	Roger M'Gbra N'Guessan	Coordinator, Private Sector Development Programme
USAID Southern Africa Trade Hub	Brian Glancy	Single Window Program Advisor

WEST AFRICA TRADE HUB		
GHANA		
USAID West Africa	Brinton Bohling	Chief -Office of Trade and Investment
USAID West Africa	Candace Buzzard	Head of Economic Growth Regional Agriculture Director
USAID West Africa	James Soukamneuth	Deputy Chief Regional Trade & Investment Office
Borderless Alliance	Afua Eshun-	Advocacy Program Advisor
Association of Ghana Industries	Seth Twum Akwaboah	Managing Director
Ghana Chamber of Commerce & Industry	Mark	CEO
	Walter Esposito	
Food Security Project	Carla Denizard	Regional Director -Africa Lead
AGI		
ECOBANK	Adofo Addo Kindgsley	
TRAQUE	Michael A.K. Senayah	Senior Industrial Promotion Officer / Imprest Administrator
TRAQUE	Edoardo Perterlini	Technical Assistance Team Leader
World Bank	Waqar Haider	Sector Leader for Sustainable development
World Bank	Kadir Osman Gyasi	Agriculture Team Leader
IFC	Edwin Munene	Investment Officer-Financial Institutions Group
IFC	Thomas Kouadio	Investment Officer-Agribusiness
Ghana Freight Forwarders Association	JOSEPH AGBAGA	Director
Ghana Shippers Authority		
Borderless Alliance	Ziad Hamoui	President Executive Committee/Executive Director - Tarazan Enterprise Ltd.

Borderless Alliance	Noel Kossonou	Transport Specialist
NIGERIA		
USAID	Roland Oroh	Agribusiness and Trade Portfolio Manager
US Embassy	Doug Climan	Economic Counselor
US Embassy	Brian P. Williams	Economic Officer
USAID	James G. Lykos	Private Sector & Trade Officer
Nigeria Bank of Industry	Ogo Akabugo	Managing Director
National Association of Nigerian Traders	Ken Ukaoha	President
ECOWAS	David L. B. Kamara	Transport and Telecommunications Director
Center for the study of the Economies of Africa	Ebere Uneze	Executive Director
Manufacturers Association of Nigeria	Segun Ajayi-Kadir	Director of Government Relations
Bank of Industry	Abdul-Ganiyu O. Mohammed	General Manager
USAID	Sharon Pauling	Director, Economic Growth& Environment Office