



Briefing Paper

Beyond Trade Rules: Enablers of Firms' Participation in Regional Agro-processing Value Chains

A Case of East Africa

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Summary

This briefing paper seeks to identify the enablers of East African firms' participation in regional agro-processing value chains, beyond trade rules. It carries out an analysis of the main agro-processing value chains within the region that underlie intra-EAC trade, and identifies key practical enablers and obstacles beyond laws and regulations. These include infrastructure, private sector agreements and business networks among others.

Background

Regional trade refers to the exchange of goods and services between countries located in the same region or economic zone. Within the East African Community (EAC) region, Partner States entered into the Customs Union Agreement and committed to remove non-tariff barriers (NTBs) in order to boost trade among themselves¹. The rationale is to stimulate production of commodities which would otherwise have to be imported from the rest of the world. This is further driven by a large number of potential customers in the region estimated at 146 million².

Since the Partner States' economies are heavily reliant on agriculture, their industrial base is mostly concentrated on agro-processing activities comprising of micro, small and medium enterprises (MSMEs) as well as locally-owned and large multinational corporations which rely on agricultural produce for their raw materials. For this reason, most of the industries within the region are agro-processors. These are spread across numerous value chains throughout East Africa.

The development of agro-processing value chains is increasingly becoming an important tool for not only food security within the region, but also a

stimulus for regional trade³. Pillar II of the Comprehensive Africa Agriculture Development Programme (CAADP) to which EAC Partner States are signatories emphasises the need for *improving rural infrastructure and trade-related capacities for market access* by raising competitiveness of locally-processed agricultural commodities, improving trade infrastructure, provision of financial services to value chains and building capacities of farmer organisations and trade associations⁴.

Regional Agro-processing Value Chains: A Trade Profile

Predominant agro-processing value chains in the EAC region

Regional value chains (RVCs) are increasingly becoming important tools towards integration into global value chains (GVCs), as well as significant contributors to key macroeconomic indicators such as employment creation and gross domestic product (GDP)⁵. In the EAC region, the agro-processing value chain is identified as a priority sector due to its strategic feasibility (factor endowment)⁶. Table 1 below outlines the major value chains identified in the region.

¹ <https://www.eac.int/customs/regional-trade>

² <https://www.eac.int/investment/why-east-africa/trade-information>

³ <http://www.ifpri.org/publication/identifying-priority-value-chains-tanzania>

⁴

<http://www.resakss.org/sites/default/files/pdfs//comprehensive-africa-agriculture-development-progr-1375.pdf>

⁵ https://unctad.org/en/PublicationsLibrary/ser-rp-2017d11_en.pdf

⁶ <https://www.eac.int/industry/eac-and-industrialisation/priority-sectors>

Table 1: Major Agro-processing value chains in East Africa

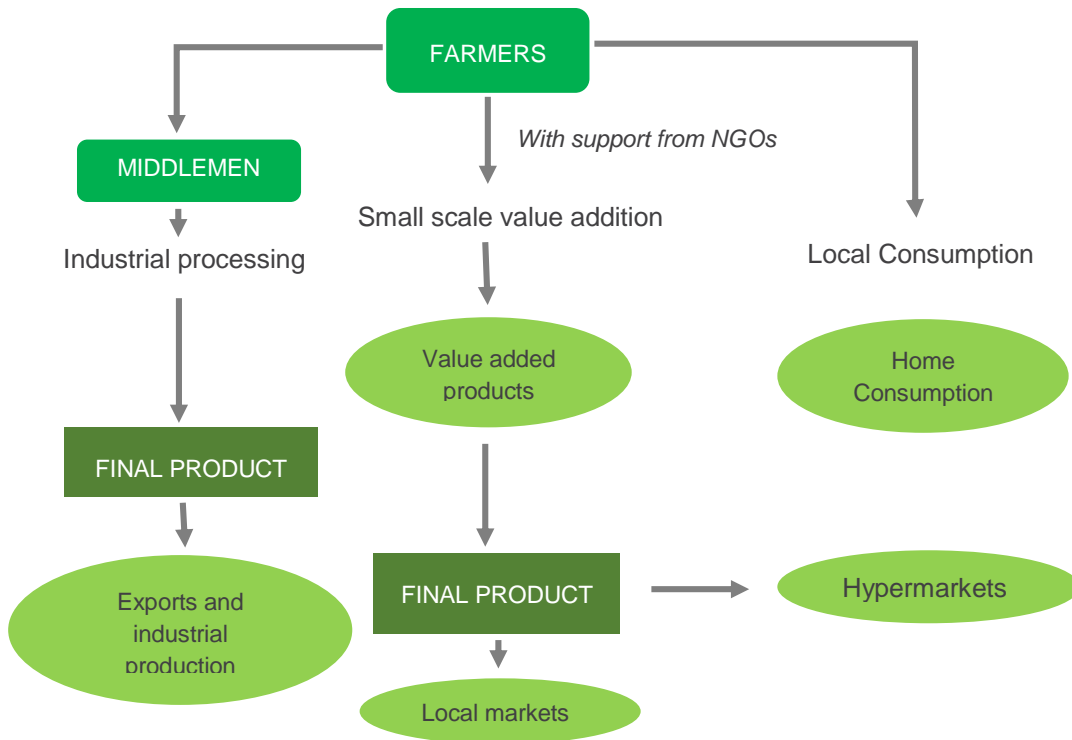
| Value chain | Key characteristics | Selected examples |
|----------------------------|--|--|
| Cereals and legumes | Considered as food security crops, includes food staples | Maize, beans, sorghum, millet, rice |
| Horticulture | Has a mix of export and domestic consumption crops | Export- mostly cut flowers, French beans, selected fruits ; Local consumption- fruits and vegetables |
| Temporary industrial crops | Short-span crops, mostly processed locally (though may also be exported) | Cotton, sugarcane, tobacco, pyrethrum, |
| Permanent crops | Mostly export oriented, exported raw or with minimal escalation (value-add) | Tea, coffee, palm oil |
| Livestock and products | Mostly made up of cattle, small animals (goat and sheep), camels, rabbits and poultry | Dairy- predominant in high altitude areas ; Meat- for both local consumption and export |
| Fisheries | Mostly practiced in fresh water lakes; fishing also done in salty water lakes, rivers and Indian Ocean, aquaculture gaining prevalence | Whole fish e.g. tilapia and Nile perch ; Fish fillet; Cod liver oils |

Inside the Value Chain: Key Private Sector Players

Value chain analysis provides a digest of activities contributing towards the value of the end product. In the context of EAC regional value chains, private sector players manifest themselves in the following ways:

- Agro-producers: peasant and commercial farmers
- Middlemen: traders buying produce at farm gates or local markets. More established middlemen have warehousing facilities for bulking of produce
- Transporters: medium of transferring produce to industrial processors. They also transport finished products to the market
- Input dealers: usually made up of large enterprises with bulk import capabilities
- Small scale processors: local value addition women/farmer groups, and cooperatives using simple technologies. In many instances, they receive technical and financial assistance from NGOs
- Medium to large industries: capital intensive, high turnover, high export potential, etc.
- Service providers: offer support services to private sector players in the value chains. Examples include financial services, research, insurance, telecommunications, human resources, etc.
- Distributors: act as link between agro-processors and the market. They also act as exporting agents.
- Wholesalers and retailers: delivery of the products to end users.

Figure 1: Key players along the value chain



The role of the African Continental Free Trade Agreement

Presently, intra-Africa trade is estimated at a low 15 per cent of Africa’s total trade⁷. The eventual operationalisation of the African Continental Free Trade Agreement (AfCFTA) is bound to liberalise trade and allow firms to have access to a larger continental market⁸. According to the United Nations Economic Commission for Africa (UNECA), the envisaged increase in trade with the rest of the continent will enjoy better economies of scale, build regional value chains, and strengthen the

profitability and competitiveness of firms within EAC⁹. Besides increasing intra-African trade, the AfCFTA is anticipated to support structural transformation, increase agricultural productivity and alleviate food insecurity, enhance economic growth and export diversification¹⁰. Furthermore, the advancement of e-commerce and the digital economy will contribute towards advancement of intra-Africa trade.

7 <https://www.busiweek.com/afcfta-to-yield-substantial-benefits/>
 8 <https://www.newtimes.co.rw/section/read/231232>
 9 <https://www.theeastafrican.co.ke/business/Agreement-on-continental-free-trade-will-become-a-gamechanger/2560-4840858-vmk9o6/index.html>

10 <https://www.tralac.org/discussions/article/12790-the-african-continental-free-trade-area-afcfta-and-other-african-union-au-initiatives-for-economic-integration.html>

Beyond Trade Rules: enablers and obstacles to regional value chain participation

Enablers

The EAC Treaty contains provisions which govern trade within the region. Additionally, Partner States are also in other bilateral and multilateral trade agreement such as COMESA, SADC and WTO. Beyond these, other factors also influence the participation of EAC regional agro-processing value chains in regional, continental and global trade. For instance, availability of buyers is a significant determinant when prioritising export markets. There are several networking platforms where exporters could meet and develop relationships with potential foreign buyers. These include trade fairs, symposiums and exhibitions¹¹.

Agents in the export market make it easier to conduct business in the destination countries. These agents act as the consignees for the cargo and also facilitate delivery to the intended market as well as receipt and transmission of payments for the deliveries. Informal contacts such as relatives and friends are also instrumental to trade as they act as agents or focal contact persons in export markets.

Supply agreements with buyers in the export market have also been identified as enablers to trade for the exporting regional value chains. In these arrangements, the exporters make contractual obligations to supply their products over a given period of time at agreed-upon frequencies and quantities. For example, a meat processor in Kenya is in weekly supplies agreements with several agents, hotels and supermarkets in the United Arab Emirates. Some of these agreements have a

favourable payment plan whereby the products are prepaid once they are placed in shipment.

EAC Partner States have heavily invested in the development of infrastructure. Some examples include the Lamu Port - South Sudan – Ethiopia - Transport (LAPSSET) corridor project, the standard gauge railway (SGR) and the upgrade of the Mombasa Port which acts as the gateway to the region. These developments have opened up EAC region to the rest of the continent while simultaneously reducing transportation costs. Other supporting facilities such as cold storage (for perishables) and reliable warehousing facilities are also considered by the exporting firms.

The advancement of telecommunications sector plays a vital role in providing market access opportunities for regional agro-processing value chains. Through the use of social media, buyers and sellers can conveniently conduct business online and close business deals. Mobile money technology has further made it easier to close business deals. The emergence and gradual advancement of e-commerce is also contributing positively to regional, continental and global trade.

Obstacles

The EAC regional agro-processing value chains depend on agriculture for their raw materials. This over-reliance on farm produce is a bottleneck to the sector especially due to dwindling output as a result of climate change effects, droughts, pests and diseases, etc. The raw materials are of inferior quality in some instances. As a result, some agro-processors have had to operate below optimal capacity or completely shut down due to insufficient or unreliable supply of raw materials.

¹¹ [http://www.cuts-geneva.org/pdf/1809-Note-
Barriers for MSMEs to Export.pdf](http://www.cuts-geneva.org/pdf/1809-Note-Barriers%20for%20MSMEs%20to%20Export.pdf)

In order to realise profitability, exporters should be able to trade in large volumes. This requires high financial investments, thus, posing a challenge to MSMEs in the EAC regional agro-processing value chains. Access to credit by these enterprises is difficult due to the stringent collateral requirements by financial institutions. This has had a direct impact on trade volumes and profitability of the enterprises.

Lack of information about opportunities abroad and trends in the export markets is another key impediment to exporters in the region. In this regard, the firms are not able to tap into potential markets. With reference to Rules of Origin, cases of export commodities being denied entry into the destination countries have been noted. In some instances, this is further complicated by lack of governments' capacity to provide information on rules and procedures in the export markets.

The inability to meet product standardisation has made it difficult for regional exporters to gain market access in some countries. Additionally, sanitary and phytosanitary (SPS) measures pose a challenge to the agro-processors and mostly affect exports to the EU which has very stringent requirements. The associated costs in complying with the set requirements are usually high and have discouraged agro-processing value chains to seek exporting opportunities to high potential countries.

Communication with buyers in non-English speaking countries adds on an additional cost of translation of documents. In some cases, errors in the translations may lead to miscommunication which result in losses.

There also exist different non-tariff measures that pose obstacles to the agro-processors. These include

police roadblocks and weighbridges, slow customs clearance procedures, corruption and poor state of infrastructure among others. All these affect business profitability.

Seeking solutions

Increasing agricultural productivity

The agro-processing value chains in the region are reliant on farm produce for their raw materials. In order to ensure a consistent supply, respective line ministries and government department of agriculture should intensify extension services to crop and livestock farmers for increased productivity. This should be supplemented by provision of subsidised farm inputs such as fertilisers, pesticides, veterinary medicines and appropriate farm implements.

The governments and other relevant stakeholders including civil society organisations and non-governmental organisations should spearhead research and development programmes targeted towards increasing agricultural output¹². Interventions in this area may include climate-smart agriculture to increase farm productivity and incomes, enhance climate change resilience as well as reduce emission of greenhouse gases¹³.

Digitalisation of agriculture further portends immense gains to the regional value chains in the EAC region through adoption of simple technologies. For instance, precision farming can provide agro-producers with key data on soil composition as well as monitor movement of free range livestock while drone technologies can be used

¹² https://www.pfz.at/documents/pdfs/2008/4a_Handout%20Frederrick%20Musingi%20Kabuye.pdf

¹³ <http://www.fao.org/climate-smart-agriculture/en/>

to monitor pests and diseases in plantations¹⁴.

There should be deliberate efforts by governments towards assisting small-scale farmers to market their produce. Producer cooperatives have incentivised farmers to engage in commercial agriculture as it enables them get better bargains for their produce while simultaneously eliminating exploitative brokers.

Infrastructure

Partner States have made admirable progress in development of infrastructure. However, this has mostly been concentrated on inter-city and interstate highways. Similar efforts should also be directed towards feeder roads in agricultural rural areas to facilitate smooth movement of both farm inputs and produce.

Industrial development

Capital formation is a significant challenge to the advancement of industrial transformation within the region. This is due to the high costs needed to set up industries. This necessitates the provision of affordable credit to investors in the agro-processing value chains. Partner States should therefore structure long term financing options to make it easier for the private sector to access funding.

The cost of energy makes up a significant overhead

for agro-processors in the region. In order to address this challenge, there should be a review of electricity tariffs imposed on industries. Governments should further explore and provide appropriate renewable energy technologies for sustainable enterprise growth in the region.

The EAC should intensify its efforts on sustaining the growth of the MSME sub-sector in the region towards upgrading them to international competitive levels. Furthermore, MSMEs play a crucial role in the value chains as some of them contribute towards reduction of post-harvest losses by providing the initial value chain escalation of farm produce before delivering them to final processors.

Market access

There is a need for Partner States to facilitate access to vital market intelligence including opportunities for agro-processors in bilateral and multilateral trade agreements as well as the AfCFTA. Additionally, the governments should aggressively market the agro-processors, for example by facilitating attendance to local, regional and international trade fairs and exhibitions. Finally, support should be provided in terms of understanding and complying with standards and other requirements such as rules of origin and SPS.

¹⁴ <https://www.biooekonomie-bw.de/en/articles/dossiers/digitisation-in-agriculture-from-precision-farming-to-farming-40/>



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PROMOTING AGRICULTURE, CLIMATE AND TRADE LINKAGES IN THE EAST AFRICAN COMMUNITY – PHASE 2

The PACT EAC2 project builds capacities of East African stakeholders for climate-aware, trade-driven and food security-enhancing agro-processing in their region. Web: www.cuts-geneva.org/pactec2



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