National and Regional Markets

Opportunities and Challenges for Cooperatives and Farmer Groups

Joshua Ariga and James Nyoro[1]

Tegemeo Institute/Egerton University

[1] Joshua Ariga and James Nyoro are Research Fellow and Executive Director respectively at Tegemeo Institute / Egerton University, P.O Box 20498 Nairobi 00200, Tel +254 20 2717818.

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ACP	African Caribbean and Pacific
AGOA	African Growth and Opportunity Act
AoA	Agreement on Agriculture
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Cooperation
EAFCA	East African Fine Coffee Association
ECOWAS	Economic Community of Western African States
EPA	Economic Partnership Agreement
EPC	Export Promotion Council
EPZ	Export Processing Zone
EU	European Union
FAMIS	Food and Agricultural Marketing Information system
FEWSNET	Famine Early Warning System Network
IGAD	Inter-Governmental Authority on Development
KACE	Kenya Agricultural Commodity Exchange
KEPSA	Kenya Private Sector Alliance
MIB	Market Information Branch
MIS	Market information System
MoA	Ministry of Agriculture
MoT	Ministry of Trade
NTB	Non-Tariff Barriers
RATES	Regional Agricultural Trade Expansion Support Program
RATIN	Regional Agricultural Trade Information Network
S&D	Special and Differential Treatment
SADC	Southern African Development Community
SADC	Southern African Development Community
SMS	Short Message Service
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TBT	Technical Barriers to Trade
TPRM	Trade Policy Review Mechanism
TRIPS	Trade-Related Aspects of International Property Rights
USAID	United State Agency for International Development
WTO	World Trade Organization

1.0 Introduction

It has become a general trend in the world that countries with similar political, regional, cultural, social, economic aspects and needs are merging into economic blocks. The reasons for this phenomenon are varied consisting of gaining bigger markets to achieving some political ends. A number of countries in Africa have followed this pattern and formed regional agreements of one form or another. These blocks provide a wider and bigger market that offers possibilities of diversification in production, processing, and marketing for members. Economies of scale accrue to national firms or businesses that have the capacity to strategize beyond their national borders. Studies indicate that market participants in inputs and outputs are able to expand and increase their throughput as a result of facing larger markets. As possibilities of diversification in production and marketing and potentials for value addition increase, member states have the opportunity to raise their incomes and employment levels. It is particularly instructive for African agreements that such blocks can provide a basis of food security as surpluses and deficit areas within the block get more integrated.

Most of the developing countries within EAC and COMESA are agricultural commodity-dependent for their livelihoods. Their external trade relies mainly on exports of primary products to industrialized nations. The dependence on natural resource-based exports regime enables these countries to earn foreign exchange to finance their imports. Unlike their Latin American and South Asian counterparts, these countries have not reduced their dependency on primary products over time though the share of processed exports has expanded substantially. The onset of trade liberalization policies – that opened markets to imports and foreign investments – and the implementation of structural adjustment programs did not herald significant increase in exports of manufactured products. Therefore agricultural products are important in these countries’ foreign trading regimes. Export growth potential, as indicated by ratio of investment to GDP, is relatively lower than other comparable countries.

When most researchers/commentators discuss the potential benefits of trade to African countries they almost universally agree on one thing. That for Africa to gain from trade she has to increase exports to EU and America. It is interesting that most studies do not look next door, at other African markets, where great opportunities exist. Preliminary data from EPC indicates that Uganda is one of the most important trading partners for Kenya. The pertinent question is whether Kenya has taken this a step further to find ways of fostering and enhancing trade output. Another question that needs to be answered is why trade has not taken off as expected when these market blocks were set up in the first place.

A 1997 survey by the International Trade Centre (ITC) assessing the extent of trade barriers in Africa showed that lack of "trade support services" – finance, telecommunication, transport, promotion - and "inappropriate government policies" – inconsistent policies, poor government-business linkages, trade regulations and taxes, customs procedures - were the main barriers to international trade. For example transport/freight costs represent a very high proportion of export value in the region.

The Institute of Development Studies (IDS) did a survey in Kenya (2000) to gauge the impact of trade support services in promoting international trade. What emerged is that most firms do not utilize existing services being offered on pre-export information (R&D and surveys) and market information (e.g EPC). Most firms are aware of the availability of these services but do not use them as a business strategy. They use own resources or business contacts to gather relevant information and data. This is symptomatic of a problem of lack of provision of appropriate information or services relevant to particular business firms by the public sector.

On the demand side, private businesses have not adjusted their strategies to the liberalized trade and competitive business environment; again the existence of "captive local markets" has not forced these firms to take full advantage of the EAC and COMESA markets. There is clearly a need for public-private partnerships in policy setups that take into account industry needs. The public sector investments should not ‘crowd out’ private investors who strive to provide similar services.

Despite the constraints that exist today, the possibilities are quite attractive and Kenya needs to organize its production base to take advantage of these opportunities. What are the available avenues and strategies that farmers in these regions can adopt in order to sell their products to a wider consumer base? Issues that are important to development and growth of the economies in the region – poverty reduction, raising incomes, agricultural production, etc- depend on expanding the markets by increasing access by farmers.

2.0 Objectives of Report

The broad objective of this report is to provide some information of the nature of national and regional markets in terms of volumes involved, opportunities, challenges, and growth potential. Who constitutes these markets and what commodities/products are traded in these markets? What are the opportunities for Kenya agricultural cooperatives and farmer groups in these markets and what are the potential and existing challenges? How can such challenges be handled in order to raise trade volumes, values, incomes, and growth in the region? These are some of the specific questions that this report will attempt to answer.

3.0 The Concepts of Trade, Markets, and Competitiveness

Before going into details of the report on opportunities and challenges for cooperatives in regional markets, it is important to delve in a little detail into some relevant terms that will make the rest of the report clearer for readers who are not economists. Trade is the actual exchange of goods and services between two parties. A trader is often defined as one who buys and sells goods or services for value or profit. Therefore trade involves the buying and selling of goods and services. Trade can take place at individual, community, national, or international arenas. The arenas in this case are given the economic term of markets.

A market can take several forms (a physical trading place, a stock exchange, etc) but essentially it is the environment within which trade takes place that is called a market. In a market the commercial activity of exchange of goods and services takes place. In a market prices are determined by how much is being offered for sale (supply) and demand for it. For example Wakulima is a wholesale market in Nairobi, the EAC community is a market for Kenyan products, and so is COMESA. A market can involve trade in one commodity (coffee, tea, etc) or several different commodities. Finally a market is the meeting point for demand and supply forces wherever they may be; we say the market for tea meaning the global (aggregate) market (total demand and supply for tea in the world), this involves a number of small markets but they all add up to the global perspective. Some interesting generic definitions of market include the following: “the place in which or the arrangement by which goods and services are bought and sold’, “The prospective customers for a given product or service”, “A region or area in which goods can be bought and sold. Generally delineated by either geography or business segment”, “A specific group of people who have needs to satisfy and the ability to pay (purchasing power)”, and “Consists of all people and/or organizations who desire (or potentially desire) a good or service, have sufficient resources to make a purchase, and the willingness and ability to buy”.

Why is there a need for trade and hence markets? One of the earliest economic explanations for why trade exists is the concept of comparative advantage (CA) locally and internationally. Comparative advantage in its simplest form means that if Tanzania produces onions more efficiently than Kenya then she can export or sell to Kenya and use the proceeds to pay for her imports from Kenya. Efficiency can result from natural environmental or climactic endowments (good soils, rains, etc) or simply technical and technological superiority in production, processing, marketing, and transport. Efficiency means that the cost of production in Tanzania plus all other charges to move onions to Kenyan markets (transport, duty, etc) is lower than the Kenyan costs up to the same markets.

Now, CA can occur between regions in the same country or across countries. Therefore we say Tanzania has a CA in the production of onions vis-à-vis Kenya. It makes economic sense then for Tanzania to sell some of its onion produce to Kenya in exchange for Shillings or dollars (foreign exchange). In this way Tanzania gets paid in Kenyan Shillings or dollars, whichever currency is appropriate for each transaction. Now if Tanzania needs Kenya manufactured tyres (assuming Kenya has CA), she can use the foreign exchange earned from the export of onions to pay the suppliers in Kenya.

Development economists have coined another term that captures the evolving global markets and the changing nature of business to encompass a whole system of activities in a liberalized environment. Competitive advantage encompasses CA but also includes the ability of firms or countries to be more efficient in all facets for the trading process in order to beat the competition. This encompasses production efficiency, processing efficiency, marketing efficiency, political will, and the implied underlying superiority in physical technology and human development skills. This concept inherently includes better IT facilities (trade support), road networks, etc. Thus trade is enhanced by the presence of competitive efficiency in one or more commodities between countries that have different efficiencies thus creating markets.

3.1 Overview of Regional Markets

This section will provide brief information on some of the regional blocks and trade relationships that exist in the world. First, globalization has a complex connotation touching on economic, cultural and social aspects of life. It implies worldwide interconnectivity in terms of free flow of goods and services, social relations, and exchange of cultural values. Though globalization is nebulous concept, it involves interaction of peoples, easy travel across countries, formation of personal relationships, regional agreements and treaties, intercontinental or international political blocks, etc that eventually amalgamate or relate in one form or another. The IT revolution has transformed globalization to include electronic connectivity with transactions taking place not in boardrooms or physical market places but by a stroke of the computer key.

Globalization, at least in its economic sense, has led to the need to oversee / monitor each nation's trading regime and how it affects other trading partners. Part of the mandate of the WTO is to offer surveillance on trade and intellectual property rights policies (through TRIPS) for member countries in order to facilitate smooth multi-lateral trading systems by improving transparency in trade. The TPRM within WTO enables members to review each other's policies within certain periods (longer periods for less developed countries) and recommend to the Secretariat the course of action.

3.2 COMESA

The COMESA, comprising of 21 countries, was formed in 1994 to replace the PTA[2]. The member states include Angola, Mauritius, Burundi, Mozambique, Comoros, Namibia, Congo, Rwanda, Djibouti, Seychelles, Egypt, Sudan, Eritrea, Swaziland, Ethiopia, Kenya, Uganda, Zambia, Madagascar, Zimbabwe, and Malawi. This is an organization of independent states stretching from Egypt to Zimbabwe that strive to cooperate to develop their natural and human resources for the good of their peoples. Tanzania is not a member of COMESA though Kenya enjoys COMESA concessionary terms into the Tanzanian market. Nine[3] out of the 21 member states of COMESA joined an FTA[4] in 2000 with the agreement to eliminate all customs duties by member states, follow rules of origin procedures, and gradually do away with NTB to trade.

The organs within COMESA include the heads of states, Council of Ministers (policy organ), Court of Justice, Committee of Governors of Central Bank (debts, credit limits and clearinghouse), Intergovernmental Committee (PS), Technical Committee (12 – including Agriculture Committee), Consultative Committee of Business community, and a Secretariat (See Figure 1 for organizational structure).

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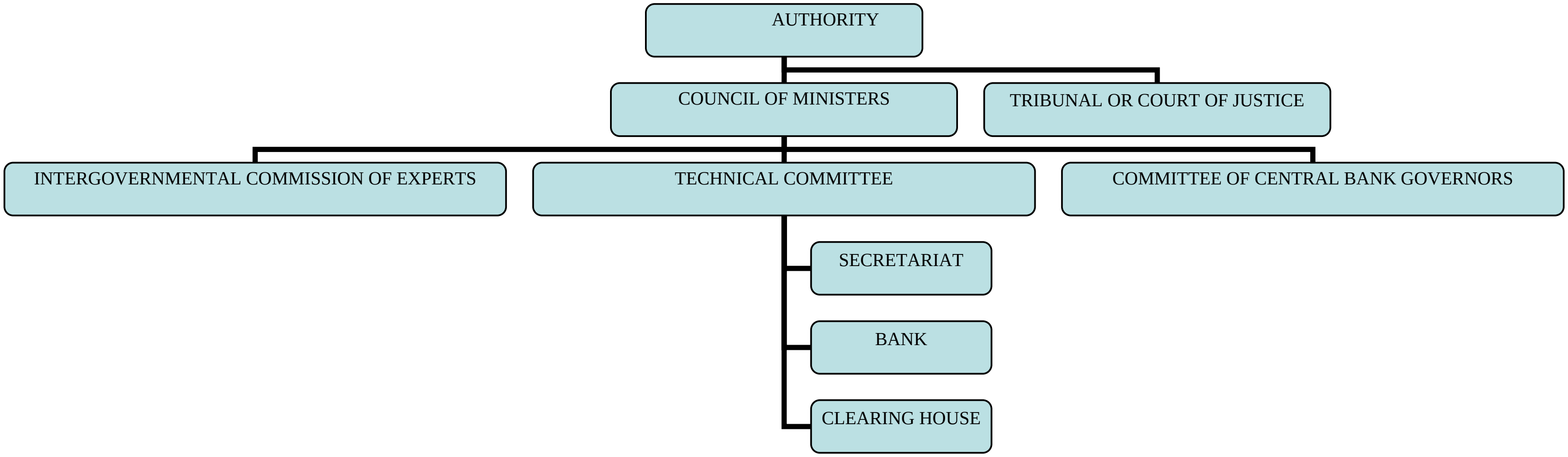
[2] These acronyms are explained in Section 4.0 below and in List of Abbreviations
[3] Mauritius, Djibouti, Egypt, Sudan, Kenya, Zambia, Madagascar, Zimbabwe, and Malawi.
[4] These terms are explained in Section 4.0 below

Figure 1. COMESA Organizational Structure



The authority: The Authority consisting of heads of state and government is the supreme policy organ of the PTA. The decisions and directions of the Authority are by consensus and are based on recommendations of the Council of Ministers.

The Authority is empowered to decide on the accession of members under Articles 46 and 50 of the Treaty, appoint the Secretary General of the PTA, as well as the judges of the Tribunal. It also decides on the accession of bodies, institutions or enterprises to membership of the Eastern and Southern African Trade and Development Bank.

Council of ministers: Ministers, preferably of trade and industry and designated by Member states, sit on the council. The Council is responsible for ensuring that the PTA functions in accordance with the Treaty. It keeps PTA's activities under constant review in order to advise the Authority on matters of policy and gives directions to all the other subordinated institutions of the PTA. Decisions of the Council are taken on the recommendation of the Intergovernmental Commission of Experts.

Intergovernmental commission of experts (ICE): Member State's experts in customs and trade, industry, agriculture, transport and communications, administrative and budgetary affairs and legal and financial matters sit on the Commission. The ICE'S main function is to oversee the implementation of the provisions of the Treaty. The Commission also considers reports from all the technical committees of the PTA. Its decisions are recommendations to the Council of Ministers.

Technical committees and subcommittees: There are technical committees for each economic sector forming the activities of the PTA. The technical committees have authority to appoint subcommittees which report to them. Current technical committees of the PTA are the Committee on Industrial Development, Committee on Agricultural Cooperation, the Transport and Communications Committee, the Committee on Botswana, Lesotho and Swaziland, the Committee of Legal Experts and the Administrative, Finance and Budgetary Committee. The decisions of the technical committees are recommendations to the Commission and are taken by simple majority.

The PTA tribunal: The Tribunal is the judicial organ of the PTA and it ensures proper interpretation and application of the provision of the Treaty. It adjudicates any disputes that may arise among Member States relating to the interpretation and application of the Treaty. The decisions of Tribunal are binding and final.

The Committee of Central Bank Governors: The Committee of Central Bank Governors determines the maximum debit and credit limits in relation to the Clearing House and the daily interest rate for outstanding debit balance. The Committee also deals with issues concerning monetary and financial cooperation.

The Secretariat: The head of the Secretariat is the Secretary General of the PTA. The Secretariat administers, undertakes research and implements the decisions of the Authority and the Council of Ministers. It assists all institutions of the PTA in carrying out their functions. There are seven divisions in the Secretariat, namely, Administration, Trade and Customs, industry, Energy and the Environment, Transport and Communications, Agriculture, Fisheries and Forestry, Monetary Affairs and Legal Affairs. Each division is headed by a Director reporting directly to the Secretary General.

Despite having a broad spectrum of objectives, the economic objective of creating an integrated trading block that has favorable trade regimes swamps other considerations. Some of the key objectives include trade promotion, unified customs network, transport and communication harmonization, enabling environment and legal framework that encourage private investment, common sets of standards and monetary regimes. COMESA offers a number of potential and actual benefits for its members- harmonized market regimes, increased competition and industrial growth, harmonized monetary, banking and finance policies, and improved transport and communication infrastructure. COMESA has a number of institutions that facilitate trade across the region – a bank and re-insurance company in Nairobi, a clearing house and an association of commercial banks in Harare, leather institute in Ethiopia, and a Court of Justice.

COMESA has a total population of around 380 million growing at an average of 2.5 percent per annum, intra- regional trade among members totaling US$ 2.4 billion, and total annual import bill of around US$32 billion. It is envisaged that the complete cancellation of customs fees on imports and exports within COMESA would increase the volume of commercial exchange and contribute to meeting the COMESA's stated target of US$ 4 billion volume of intra-COMESA trade.

COMESA has potential import and export bill of US$32 billion and US$21 billion respectively and an immense aggregate real GDP of US$272 billion in 2001 and natural resources that are largely untapped. According to the United States International Commission, exports from the COMESA member states in the year 2002 totaled US $ 5.8 billion up from US$5.5 billion in 2001.This is a market that offers lots of opportunities for member states that have the trading capacity and competitive advantage.

3.3 East Africa Cooperation

The EAC consists of Kenya Tanzania, and Uganda with a combined population of 80 million people. Uganda is by far the largest destination for Kenya products taking about 18% of all Kenyan exports in 2002, followed by UK at 12% and Tanzania at 8%. These countries have agreed to ease customs and cross-border procedures and also facilitate movement of people across borders by early 2005. It is anticipated that by 2009 EAC will have a common currency.

The members are planning on eventually merging into a federation with political, economic, and cultural linkages. The organs have floated the idea of a rotating regional presidency in addition to national presidents for each member country.

3.4 Other Regional Economic Blocks/Agreements

Other prominent regional agreements of economic and political nature include; North America Free Trade Agreement (NAFTA), Asian Pacific Economic Cooperative Agreement (ASEAN), Caribbean Common Market (CARICOM),the European Union (EU), the Economic Community of West Africa States (ECOWAS), Communauté Économique et Monétaire de l'Afrique Centrale (CEMAC), Union Economique et Monétaire Ouest Africaine (UEMOA), and Southern Africa Development Community (SADC).

4.0 The Evolution of Regional Economic Blocks

The formation of a common market involving several countries follows a number of steps some of which are highlighted below. The process need not follow these steps rigidly as cases of shorter or longer processes exist. The main objective of these blocks is to integrate their economies leading to inter-state dependencies that foster cross-border interactions for development. The final goal is that of common monetary policies and currency that will ease trade resulting in a common market. Key areas of interest in these realignments are trade, customs procedures, and monetary policy framework. The integration process aims at free movement of goods and services, labor, capital, coordinated macro policy, increased competition among member states, integration of financial markets, and creation of a common monetary union.

4.1 Preferential Trade Area (PTA)

In this state there are lower Tariffs for member states but tariffs for trade outside of the PTA may be different. For COMESA lower tariffs were applied to a list of commodities under the Common List products particularly for raw materials, intermediate goods, and capital and consumer goods. Under PTA some NTB were abolished – advance import deposits, taxes on foreign exchange – and member states were asked to specify their PTA sub-quotas within their global quota limits.

4.2 Free Trade Area (FTA)

FTA was formed in 1981 encompassing nine states – Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia, and Zimbabwe. FTA implies commitment to eliminate tariffs for goods and services originating from member states but each member state is allowed to apply its own tariffs on extra regional trade. For COMESA, member states with tariffs reduction of less than 60% were not granted preferential rates by other members; intra-regional trade tariffs with each member are dependent on their implementation of the elimination of rates.

Some of the benefits of a FTA include giving incentives to increase trade, increase in profits of the private sector, incentive to foreign direct investment, provides a greater range of products to consumers of each member state, and can be a catalyst for increased cross-border investment. The larger integrated market for COMESA was also geared towards attracting foreign investments into the region therefore spurring growth. To attract investments member states endeavored to improve infrastructure, policy environments, peace and law, and governance.

Economies of scale from the larger markets were expected to lead to more efficient production and marketing systems, foster competition within and globally therefore improving on efficiency in production and other areas, apart from offering a diversified bundle of goods and services to consumers.

4.3 Custom Union

There exists a free trade among member state and a common external tariff (CET) regime on extra regional Trade.

4.4 Common Market

With a common market there is a free movement of capital and labor, greater harmonization of trade, exchange rate, fiscal and monetary policies and full internal exchange rate convertibility.

4.5 Economic Community

This culminates in a common monetary policy and currency for all members.

5.0 Pertinent Issues from Such Agreements

Such blocks or agreements are accompanied by certain inevitable developments. When sovereign states decide to form regional economic blocks they need to agree on how to trade with each other. The different legal or regulatory frameworks that exist within the block have to be harmonized and the movement of people, goods, and services coordinated to reduce conflicts, inefficiencies, and redundancies. In addition, certain crucial country initiatives for taking care of national security, food security, and health issues need to be taken into account when looking at regional cooperation.

5.1 Subsidies and Domestic Support Policies under WTO Negotiations

The Uruguay Round of WTO talks gave member states an option of phasing out their trade distorting subsidies and support systems by providing a timeframe for their elimination, a sort of commitment schedule. This is because a number of countries in Europe and USA offer price distorting support incentives to their producers that increase costs to developing country farmers and businesspeople. Some of these support policies assist both producers and exporters from Europe and elsewhere therefore hurting developing countries who cannot afford similar programmes. The focus is to eliminate such trade-distorting policies as explained in the well-known "boxes[5]" structure.

The question of non-trade distortions of agricultural trade – food reserves, food security and safety net programs, environmental protection, targeting the poor in rural areas – are some issues that some members want discussed under WTO as potential distortions. However, developed countries argue that this is provided for in the Green Box and that he developed nations are angling for S&D, which AoA does not provide for.

One of the contentious issues is which countries qualify as developing in order to get a ten-year moratorium to eliminate the distortions under the S&D provisions in the AoA. Some of these provisions allow developing nations, like Brazil sugar under Green Box, the potential to affect other developing and LDCs countries growth for a long time. COMESA nations should be careful as they negotiate at WTO level particularly as regards the timeframe that is provided for the different countries to eliminate the

[5] Green box – policies that do not significantly distort trade. Blue box – Trade-distorting but allowed "on condition" that they be alleviated. Amber box – have trade or production distorting effects – price support or production enhancing or reduction strategies. However, the *de minimis* provision of the AoA of WTO in the elimination of amber box distortions gives developed country member states respite if the distortions do not exceed 5% of the total value of production of the product in question (10% for developing states). This is illusory as developing countries cannot afford these support measures anyway.

distortions, whether these countries are developed, developing, or LDCs. For example these time frames can be linked to certain specific sectors in agriculture (looking at value addition, investment, supply issues) or linked to timeframes for developed nations.

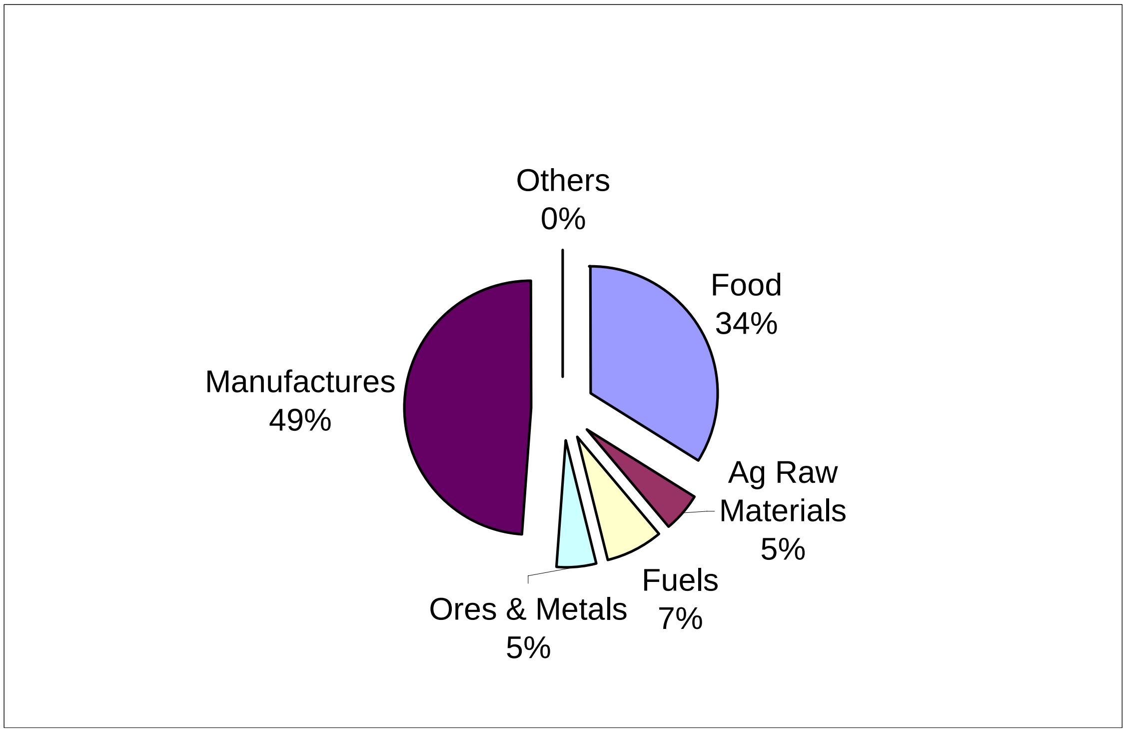
Negotiations for Economic Partnership Agreement (EPA) between different blocks and countries have looked at the contentious issues of non-trade distortions, Sanitary and Phytosanitary (SPS) impediments into EU market, export subsidies by EU and USA. The support by EU for its sugar producer and exporter has been extended to trading partners in the ACP sparking protest from Brazil and other affected countries. Such disputes are brought before the WTO Dispute Settlement Body or Appellate Body. One of the solutions to such disputes is the option of providing development assistance to countries dependent on foreign exchange earnings from sugar exports to diversify. But such issues are not easily resolved and may take a while to understand their impact and ramifications.

6.0 Market Opportunities for Agricultural Products in COMESA

With the help of the Regional Agricultural Trade Expansion Support (RATES), COMESA has plans to increase the volume and value of agricultural trade by looking at issues involving policy, market information and constraints that impede free flow of goods and services. The interventions focus on commodities maize and pulses, cotton and textiles, milk and dairy products, specialty coffee and livestock. The idea is to have an integrated market that is open, with harmonized regulations with respect to SPS and food safety measures, product quality standards, simplified customs regulations, market information systems, strengthen private sector, improve food security, and public-private partnerships, and predictable trade policies.

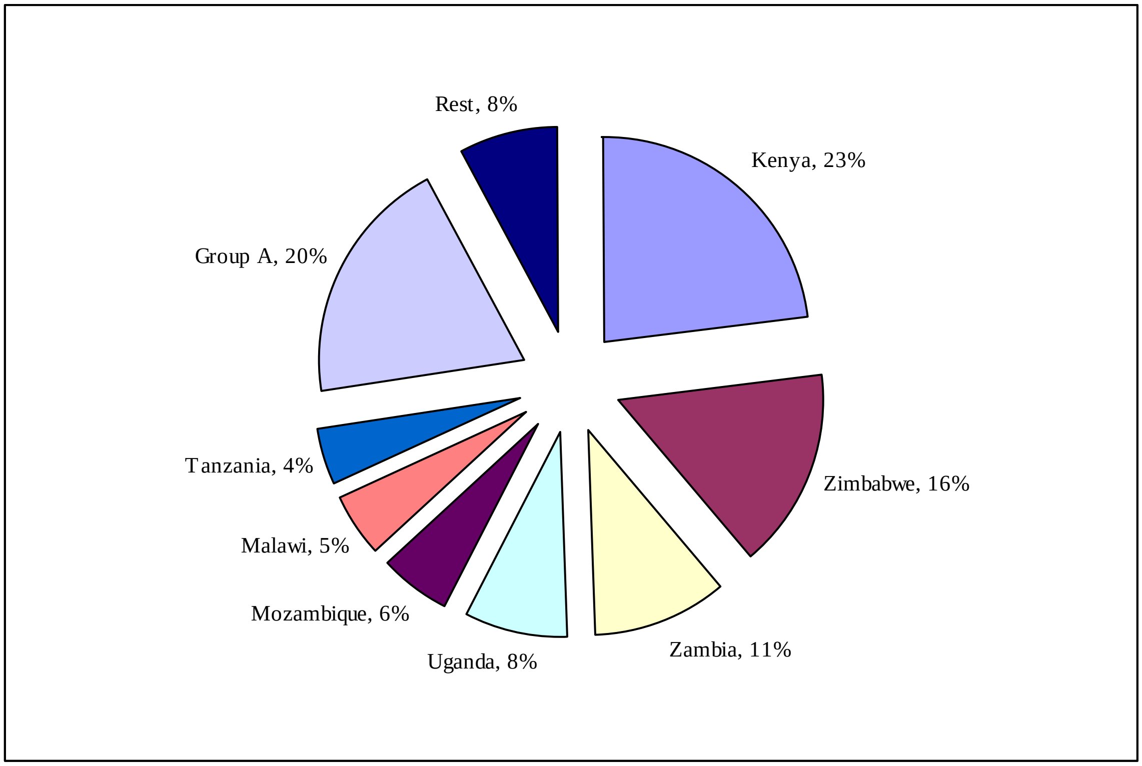
The total volume of intra-COMESA trade stood at US$4.28 billion in 2003 excluding re-exports. The share of food and agricultural raw materials was US$1.69 billion (39%), manufactured goods commanded the highest share at 49% (Figure 2). Clearly agricultural products are an important part of trade in COMESA. The traded commodity base among COMESA members is narrow and similar. Manufactured goods are imported mainly from outside the region while primary agricultural commodities dominate exports. Some of the agricultural commodities traded include flour, coffee, tea, bananas, onions, tomatoes, pineapples, and milk products.

Figure 2. Intra-COMESA Trade (2003)



The participation of different countries in intra-COMESA trade is shown in the figure below which takes an average between 1985 and 1992 years. What emerges is the great potential that exists for each country's market players to raise their trade with each other.

Figure 3. Percent Intra-Regional COMESA trade by Country (Average over 1985-1992 years in US Millions)[6]

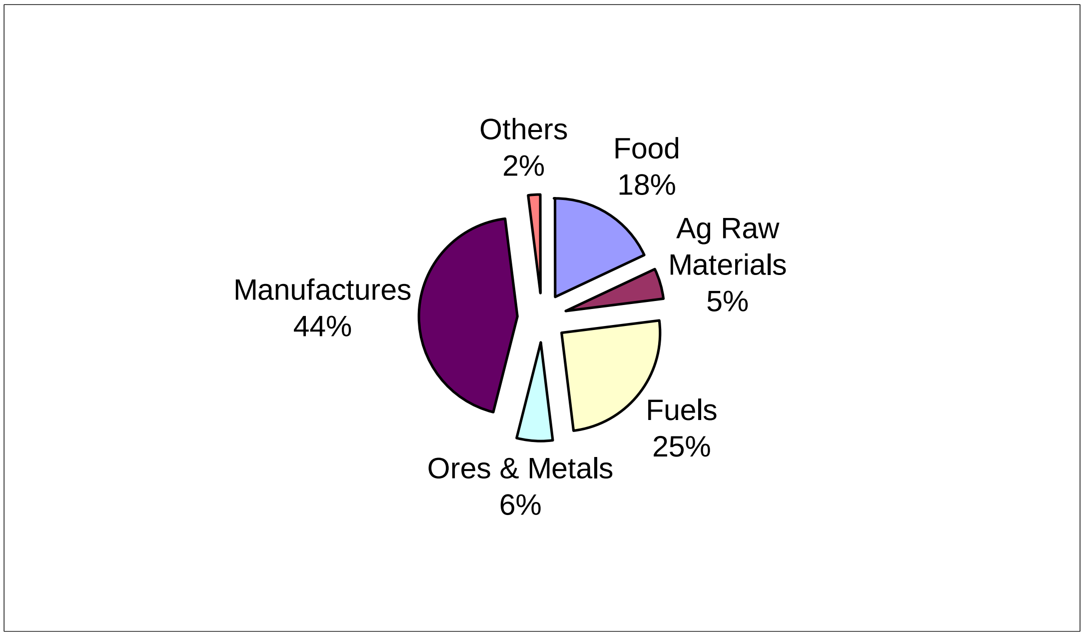


Source: Clearing House Annual Report 1993

In terms of global trade, COMESA trading was US$61.6 billion in 2003 with manufacturing sector taking US$44 billion, fuels US$25 billion, and food and agricultural raw materials at US$22 billion (Figure 3).

[6] Group A countries here denote Madagascar, Rwanda, Sudan, Burundi, Ethiopia, Djibouti. Percentages are based on an average of US$1235 million per year

Figure 4. Global COMESA Trade (2003)



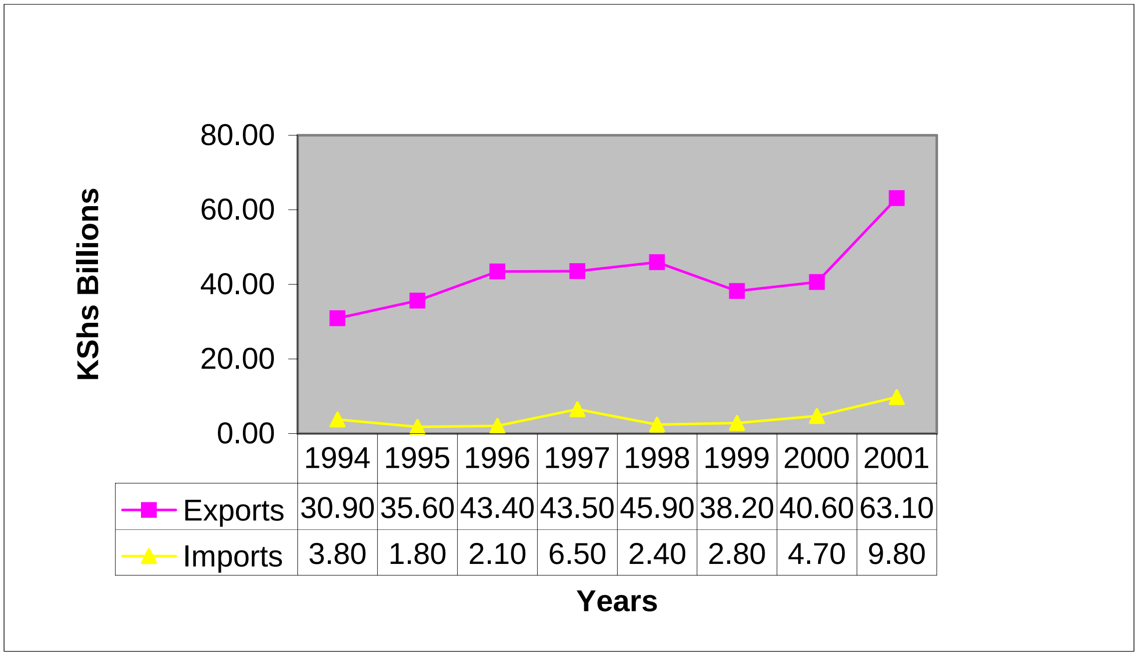
What the above figures indicate is the importance of agricultural trade in COMESA. Food dominates agricultural products and most with limited trade in value added agricultural commodities. Trade in raw materials is low at 5% considering the potential in the region. However, COMESA regional trade is dominated by manufacturing.

The high populations in these regions provide a great demand base for our agricultural products. How can countries in this region identify broader and niche markets that will be give farmers alternative nearby markets?. Since most of these countries produce similar products, producers or marketing agents may have to device innovative ways to capture these markets. One of these approaches involves the addition of value to certain items in order to make them more attractive in such markets. What are the possibilities of value addition and for what products? These are some questions that need to be studied to gauge the moods of the market. Value addition would require brand names and attractive packaging. These qualities call for an organized group/s that can jointly marshal funds and build name recognition, be treated as legal entities, and be able to contract. For cooperatives and farmer groups to benefit from these opportunities members need to be educated in some basic tools of trade – quality standards have to be met, processing procedures, information needs must be available especially on prices at different markets, etc. The cooperatives and farmer groups across the region must identify what is the priority products needed in their areas (higher demand) and what products they produce in surplus and then the institutional arrangements must be put in place; that is going to do the actual trading? Is it the group or through another party? The choice will depend on how best the individual member will benefit. Of course issues of the legal framework and cross-border regulations or requirements for export/import should also be accounted for.

6.1 A Glimpse into the Regional Trade

Figure1 below shows the trend in Kenya's exports and imports from 1994 to 2001. Exports account for over 90% of the aggregate trade implying a decidedly one-sided trade regime. The balance of trade is favorable to Kenya. Most of the Kenyan goods sold into the region are of manufactured nature intimating at the potential for industrialization for Kenya. The main Kenya exports include petroleum products, cement, edible oils, detergents, confectionery, steel products, plastics, stationery, household products, and coffee. Other exports include services in seaport facilities, transport, banking, insurance, education, skilled labor, health, engineering, consultancy, and construction. As argued elsewhere in this report there is great potential for agricultural products especially if value addition is incorporated.

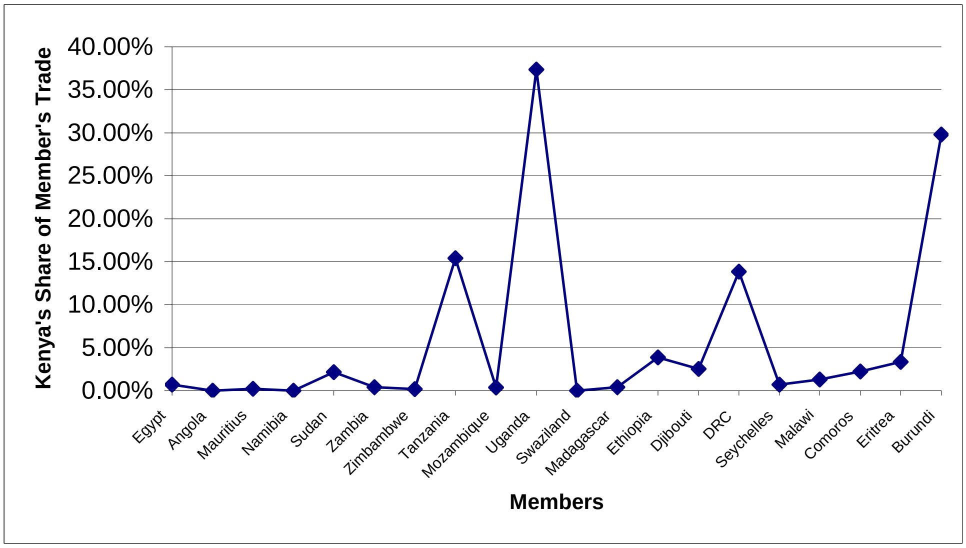
Figure 5. Aggregate Kenya Trade Balance With COMESA



In 2002 the COMESA market accounted for 35% of Kenya's total exports of merchandise followed by EU at 27%.

Looking into each member's trade and Kenya's participation gives more insight into the potential of regional opportunities that exists for cooperatives and farmer groups. For example Kenya accounts for more than 35% of Uganda's international trade, 13% of Democratic Republic of Congo, and 30% of Burundi's. The main commodities exported include petroleum products, cement, edible oils, detergents, confectionery, steel products, plastics, stationery, office and household products. There is also a substantial flow of services and processed agricultural products notably flour and cooking oil. However, Kenya's participation in the rest of COMESA trade is insignificant when compared to the aggregate trade flows into and out of these countries. Herein lies the potential for cooperatives and farmer groups in these countries to increase their trade into these untapped markets. Businesses and government should strive to increase each country's participation in these markets by increasing exports.

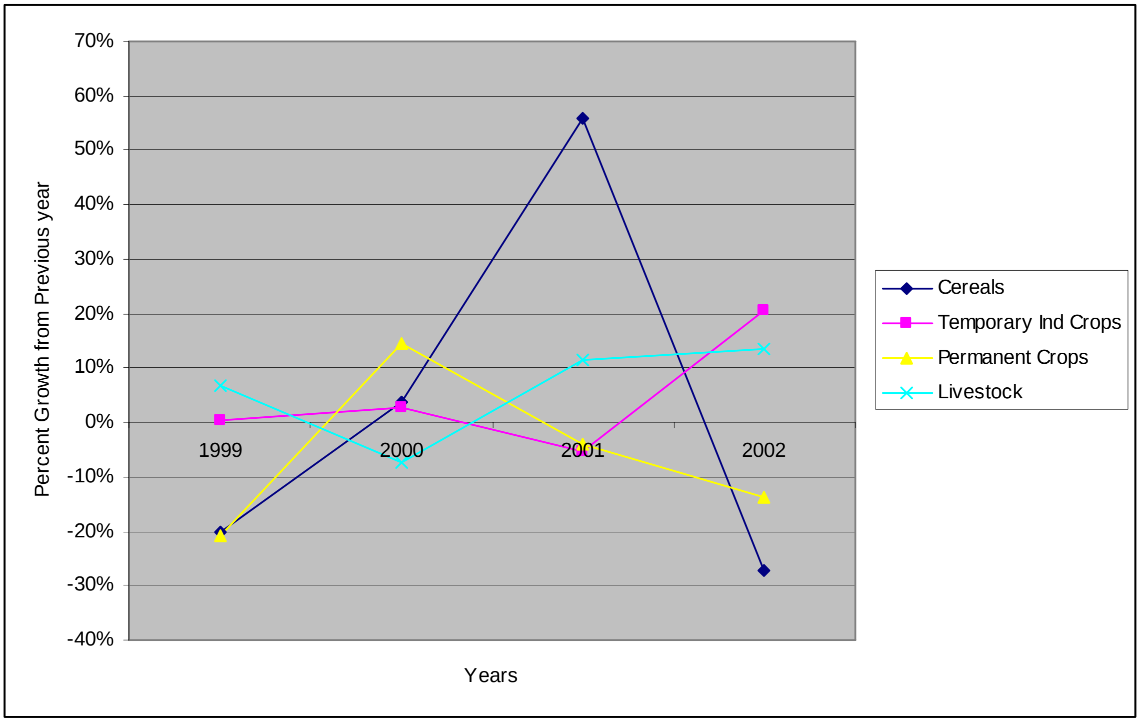
Figure 6. Kenya's Participation in Each COMESA Country Trade



6.2 Domestic Marketed Production Trends

The figure below gives some indications of growth in marketed production in Kenya. This shows some of the potential areas that farmer groups and cooperatives can venture into in local markets.

Figure 7. Growth Rates in Value of Marketed Production for particular groups of Agricultural Products[7] (Kenya)



Source: Economic Survey 2003 and Authors' Compilation

The trend shows that marketed production for livestock products and temporary industrial crops have increased over this period. Since the graph is based on Kenya Shillings value of marketed production the trend for each group is dependent on quantity produced and prices of those commodities. For example tea, maize, wheat, and pyrethrum prices were low and declining in 2001 and the graph reflects this. The share of small farms sales in marketing boards and groups reflects the participation of smallholder farmers in agricultural production. In 2002 the estimated share of small farms in marketed production stood at 71%.

The following sub-sections will look at specific commodities in details as relates to regional trade.

[7] Cereals cover maize and wheat. Temporary industrial crops include sugarcane, pineapples, and pyrethrum. Livestock and products include cattle and calves, dairy produce, and chicken and eggs.

6.2.1 Potential for Trade in Maize

The regional maize market was worth US$ 808 million in 2003 but only about US$ 30 million is from Intra-COEMSA trade, which is less than 4% of the total. This implies that 96% of maize trade is sourced outside of COMESA. The COMESA countries have an opportunity to change this scenario by reducing reliance from external trade and encouraging increased production and exports to member states.
Cross-country linkages can improve this situation tremendously. For instance Uganda imports seed maize from Kenya and has production costs for maize much lower than those in Kenya. There exists a lot of formal and informal trade in maize between Kenya and Uganda. This is a scenario that can be expanded to the larger COMESA region.

6.2.2 Potential for Trade in Dairy

The dairy sector in the region is undeveloped with low milk consumption per capita, low productivity, and surplus production in some countries while others are in deficit. A small proportion of the milk is processed (less than 20% of the total production) and most of the processing plants operate below capacity (less than 50%). The sector was worth about US$ 319 million in 2003 out which only 9% constituted intra-COMESA Trade as most milk products traded are imported from Europe. There exists a large informal milk market that is largely unregulated and there are no harmonized quality standards as of yet (COMESA is in the process of doing this to reduce problems of different food quality standards across the countries).

6.2.2 Potential for Trade in Cotton and Textiles

These products have huge market potential and in 2003 cotton, cotton lint, yarn, and fabric were worth US $ 1.28 billion. Intra COMESA trade then accounted for only 7% showing the absence of regional supply chain and value addition. The Export Processing Zone (EPZ) produces for external market like the one offered by the African Growth Opportunity Act (AGOA) while importing raw materials from outside. There exists low productivity and industry competitiveness coupled with low capacity utilization of textile plants (operating less than 50%) and no harmonized standard for cotton and textile products exist across these countries.

6.2.2 Potential for Trade in Coffee

The potential for production of high quality Arabica and Robusta Coffee exits and it is well recognized that the region is a source of high quality coffee. The coffee industry is relatively well organized compared to other commodities as there is a presence of private sector capacity especially in specialty market. Though there is limited or absence of marketing of local brands in national and regional markets there is a potential for forming a regional Coffee Exchange

7.0 Challenges and Underlying Issues

There is clear indication that agricultural trade has not reached its potential in the region due to some constraints. It is instructive to note that less than 10% of agricultural trade is within the region, the rest being from and with the outside world. For example only 8.78% of total dairy trade of US$319 million in 2003 was intra-COMESA, implying a lot of external trade. During the same period intra-COMESA trade in maize was 3.71% of total trade standing at US$808 billion. This trend is generally true for other commodities as well. There are no regional value chains and linkages across these countries. There are numerous opportunities for raising production through investments in agro-processing and value addition.

Value addition and industry linkages are two crucial areas that need to be addressed by COMESA members in order to take advantage of existing opportunities in the region. There is a need for value addition in order to raise volumes in this market. Policies require to be directed at fostering an environment that creates industry links and raises investments. Market information needs to be availed at affordable costs and be directed at appropriate firms and commodities. The public sector requires to link with the private investors or players in order to get at relevant policy issues to develop linkages and encourage a regional orientation in marketing strategies. Currently there are no regional value chains and few linkages exist across industries in the region despite the apparent capacity for this to happen. The existence of surpluses, deficits, and underutilized processing facilities should provide a basis for such linkages.

Predictable policy environments that enable investors to make decisions without the additional worry of uncertainties are essential to the development of markets. This is not the case yet with COMESA countries. Although eleven out of the twenty one COMESA countries are in FTA, they have continued to impose barriers to trade including bans, SPS requirements, red tape in customs procedures, duties, and changes to requirements that are ad hoc in nature. This unpredictability in trade environment sends wrong signals to investors and therefore leads to reduced trade, productivity and overall economic growth.

A simplified customs procedures and documents has not been achieved yet by COMESA countries. NTB have in particularly caused problems for traders at the borders. Cross border trade is not adequately facilitated especially when NTBs are imposed in an ad hoc basis with traders being required to pay duties at border crossings they were unaware of.

One other area that is being addressed by COMESA is the harmonization of food safety standards and SPS requirements. Each country has its own standards that may be different from the others and this will impose additional costs for traders who have to meet varied quality standards. The harmonization of the various standards will reduce costs for traders and raise the volume of trade. The setting of regionally harmonized quality and product standards is in progress; this may need public-private partnerships so that private sector will buy-in to make it successful.

Other challenges include inadequate reliable market information (RATES is addressing this), a weak private sector that needs to be facilitated by public sector, and the production of similar commodities across these nations. All these pose a challenge to traders who desire to penetrate the market. There is an absence of reliable source of information on trade policies, regulations and procedures in all these countries. There is currently no one-stop repository of simplified information source that potential and existing traders can get information on trade regulations and requirements. Trading across the borders is often a touch and go experience with traders not knowing what to expect at borders. The differential trade policies across these countries cause a lot of unpredictability in trade especially when changes to trade requirements are not communicated to stakeholders on time.

7.1 The Role and Empowerment of the Private Sector

Public-private partnerships are important in making sure that regional trade policies are adequate and directed at increasing investments and trade flows. Traditionally the public sector has not been very forthcoming in consulting the private sector on policies or policy changes. A strong private sector can be a powerful force in influencing change, creating dialogue and policy advocacy. Regional policies should take cognizance of the fact that trade flows between states will depend on how well investors are informed and willing to participate and whether their needs can be met by the regulations, procedures, etc that emanate from policy directives.

In Kenya there is an emerging private sector alliance (KEPSA) that advocates for private sector interests through dialogue with policy makers and other stakeholders. However, what is needed is a region wide alliance of private sector players that is able to interact with policy makers in order to make sure their needs are addressed. Industry-specific alliances can provide networking leading to provision of industry requirements, issues, constraints, and challenges facing particular industries and propose strategies and solutions.

With a well coordinated linkage between policy and investment, private traders will be able to use public facilities that provide information regional trade issues. Currently some of the available sources of information at public offices are not utilized fully by the private sector. Linkages between the public and private sector will reduce costs of gathering information by the private sector themselves. Strengthening linkages between MIS providers and the private sector is therefore important.

One other area where private sector can contribute is in policy formulation. Since investors are the ones who feel the blunt of customs procedures and regulations, their input in harmonizing regional trade policies will lead to improved trade.

Other roles for the private sector are to help finance production and trade by offering credit services, provide alternative MIS to those of government, and get involved in reforms at regional and national levels.

7.2 Some Developments to Promote Trade

There some developments that have been initiated within COMESA to ease trade by improving on market access. One key area of significance is the growth in information systems introduced by a number of organizations, private, donor-funded, and public.

7.2.1 Donor-Driven Systems of Information

The importance of market information cannot be overemphasized in regional trade. The availability, reliability, and timeliness of information within the COMESA region is an issue that needs urgent address by members. RATES under the support of USAID/REDSO, has a web page that provides information on some commodities and trade linkages aimed at filling this gap. RATES is an agricultural trade promotion project focusing on maize, pulses, coffee, livestock, dairy, cotton and textiles. It supplies information on demand/supply factors and also policy-related issues affecting the market. Under its umbrella four information systems are in place; RATIN, Tradeafrica, Cottonafrica, Worldwidecoffee and Africatradepolicy.

RATIN monitors trends in major agricultural commodities – maize, beans, and rice. RATIN provides regional trade intelligence data service to assist traders, producers, processors, and policy makers. RATIN is currently under RATES/FEWSNET management at www.ratin.net. At www.tradeafrica.biz there is information to link trades in maize, beans, and pulses offering spot prices. Registration at this site is free of charge. With renewed interest in cotton through the AGOA Act, RATES has developed a website to cater for those interested in trade in yarn, etc at www.cottonafrica.com. Again RATES together with EAFCA have developed a website at www.worldwildestcoffee.org to market specialty coffee. Plans are underway to develop a website at www.africatradepolicy.com by the end of 2004 to provide information on trade policies, regulations, procedures, and practices as they relate to agriculture in Africa. This site will also monitor tariff and NTB to regional trade.

FEWSNET is another information provision agency that supplies date on availability of food (surpluses/deficits) and provides early warning to policy makers, food agencies, etc on food situation so that solutions can be found.

7.2.2 COMESA Initiatives

COMESA has done a study on how to strengthen food security and agricultural marketing information systems in the region by identifying the gaps, the potential of MIS in the region, and how a well functioning MIS can be established. The proposed COMESA-wide FAMIS will complement work done by RATIN and others to help smoothen information asymmetries, marketing inefficiencies, and creation of a more enabling environment. IGAD also has plans to develop an MIS system that will draw on national MISs to collect relevant information for the whole area.

7.2.3 Public Sector Information Systems

The EPC is mandated to develop and promote Kenya's exports of goods and services and harmonize export related activities. Specific objectives include addressing constraints facing exporters, promote an export culture, and engage in dialogue with stakeholders. The EPC takes lack of information to traders on what goods and services are produced in the region as one of the challenges facing COMESA. EPC conducts market surveys, promotion activities and fairs, and provides information on potentials for trade. EPC offers services to exporters on products and markets of interest and information on tariffs, suppliers, and competition.

Kenya's MoA has a MIB that collects market information in select markets in Kenya on a regular basis and publishes excerpts in the daily newspapers, radio, and bulletins covering prices. The branch collaborates with FEWSNET, RATIN, and other institutions in the information gathering. Some innovative methods are used to send price data from the field to the head office including by SMS from cell phones.

On the national and regional level, the MoT coordinates activities related to regional agreements and trade (tariffs, custom unions, etc).

7.2.4 Private Sector Information Systems

In Kenya private-initiatives towards information sharing or provision have not taken off very well. The KACE has initiated an exchange where buyers and sellers can make offers, bids, and prices. For subscribers, KACE offers a web service that provides information on commodity market prices at www.kacekenya.com.

The KENFAP has also initiated a program in a number of districts to gather information with help from MoA staff and also organize producer groups into marketing groups that will be able to gather information and use it for their benefit. But all these efforts will depend on levels of funding, ICT potentials, and capacity building endeavors.

On the other hand some private firms have an in-house information gathering mechanisms, which they may not be willing to share with their existing and potential competitors.

7.3 Food Security Issues

The COMESA region has varied agro-ecological zones with different climatic patterns. This has implications on food security as different areas have different endowments and vulnerabilities. The concept of food in most the area is synonymous with maize though there exist varying eating habits. The regional food security is best served by trade across the region. Currently most imports of maize are sourced from outside COMESA region.

The COMESA region will provide linkages between surplus and deficit regions by allowing the private sector to intermediate in buying and selling within and cross borders.

8.0 Emerging Issues and Recommendations to Cooperatives, Farmer Groups, and Policy Makers

African countries are facing some challenges in international trade as relates to external market access regulations and increased competition resulting from the liberalization of world markets. It is becoming increasingly important that COMESA countries re-think their export strategy to both the traditional OECD markets and to emerging trade blocks in the region. As globalization, in all its facets, becomes a reality domestic firms have to strive to be competitive in order to gain external and local market power. One such avenue for growth is value addition especially in agro-processing and also export diversification. A specific short-term strategy is to raise the efficiency of producer organizations in the agricultural sector and the development of non-traditional agricultural exports. It is clear that there is a big market within COMESA which is sourcing a substantial part of its goods and services from outside rather than within. Some reasons for this include lack of capacity within COMESA to fill the gap or compete. Increasing the productivity at farm level and improving efficiency at post-farm can lead to increased intra-trade. The cooperatives and farmer groups should encourage their members to plant higher yielding varieties so as to get surplus production over home consumption in order to sell. This can be achieved by macroeconomic policy incentives that promote exports to raise trade and investment.

The composition of agricultural exports from Kenya consists of few items that target a narrow/concentrated market, mostly EU with relatively little trade in the emerging regional markets in Africa. There exists immense potential for trade in agricultural products in COMESA region. From the total trade from and to the region, a smaller proportion comes from intra-regional trade while the bigger proportion involves the rest of the world. Some of the challenges and constraints that exacerbate this status is lack of more regional-oriented strategy and perspective by businesses, inadequate support services (information on markets, contacts, irrigation services, credit, etc), a bureaucratic customs procedure, lack of harmonized policy decisions on national and regional trade issues, un-harmonized legal and regulatory frameworks, uncoordinated food safety and product quality standards across the region, and lack of public-private partnership in policy formulation that will include stakeholder interests. One other overriding constraint is the ad hoc nature of decisions involving regulatory and customs procedures across the borders and lack of updating and informing stakeholders in a timely manner of all sorts of changes made by member countries or their employees. Other challenges include tariffs and NTBs (SPS, etc), and TBTs, dumping measures, subsidies offered to developed country producers. All these bottlenecks raise the cost of transacting business in the region turning away actual and potential investors.

However, producer groups or cooperatives have the opportunity to invest in this market by tapping into areas that have value addition potential and also take advantage of existing support services by public and private providers. By creating linkages with other industry members across the region, cooperatives and other groups can use the synergies that will accrue from a more efficient trading relationship to increase their sales in the region. For example by collaborating with EAFCA, cooperatives may gain by tapping the specialty coffee market regionally and elsewhere. Clearly linkages by regional trade investors are important in creating opportunities and cutting on search costs.

9.0 Conclusions

As previous sections show, there is a lot of potential in this region for increased trade opportunities for Kenya’s products. Looking at trends in exports over the years, Kenya’s external market potential lies in value addition and diversification from traditional export commodities. However, these are not adequate if certain fundamental issues are not addressed to make markets more accessible (Section 8.0 and others). COMESA Secretariat should raise awareness among its members’ policy organs on importance of linkages and value addition. Sharing of information on trade policies, trade flows, capacities, and developing a market information system to facilitate linkages and trade.

Kenya has a relatively developed infrastructure system compared to her neighbors and can use this to aggressively venture into these markets. Information systems on market indicators, participants, and policies that affect trade relations are important in this regard. There is need for government to include the private sector in the formulation of international treaties and trade regimes. The inadequate uses of government services by the private sector attests to an apparent disconnect between these two. A participatory approach to policy formulation and implementation should enhance increased investment in the region. Policy formulation should also include the provision of strong negotiation skills with international bodies (WTO) in order to build trade capacity in Kenya. African countries in general should be able to articulate their position vis-a -vis the EU and the rest of the world. International trade should not be localized but also enable foreign investments that will fill the gaps in domestic capacity.

There is potential for Kenyan firms and SMEs to increase trade beyond the borders by becoming more regional savvy, take advantage of existing knowledge systems, working closely with public departments involved in trade issues, developing close trade linkages with regional partners, becoming more involved in value added commodities, and diversifying from traditional exports that every other COMESA member is producing.

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