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Dear Reader,

This is yet another edition of this special bulletin published by the Eastern Africa Grain Council under the title Agricultural Trade Policy Advisory Forum Eastern and Southern Africa – ATPAF-ESA, a service of EAGC.

The bulletin is one of the tools used by EAGC in advancing the policy advocacy agenda of the council, with the aim of advocating for an enabling policy environment for the grain value chain stakeholders, so as to attract and retain increased investments in the agribusiness sector in the region.

In this edition, we explore a number of policy issues that continue to present serious challenges to the grain sector and the entire agriculture and agribusiness sector at large. We revisit the issue of the involvement of Government in agricultural trade, noting that the Governments in the region continue to get involved in numerous interventions in the sector including; controls of trade in agricultural products, export and import restrictions, involvement in the input sector in offering subsidized seed and fertilizers, as well as participating in the output markets buying maize produce for the strategic food reserves.

All these interventions done in parallel or direct competition to the private sector continue to impact negatively, increasing risks of uncertainty and thus driving away investment in the sector. The impact of government interventions in the agriculture sector, and particularly the food grains and cereals sector, which are the predominant staple foods for majority of the citizens of the region, continue to be felt all across the value chains in the region.

We have also witnessed the enactment of a number of legislation in the Agriculture Sector in the region. In Kenya, the recently enacted Agriculture Fisheries & Forestry Authority Act – popularly known as the AFFA Act is already under implementation. Stakeholders have faulted a number of provisions in the Act and decried the increased cost of doing business resulting from it.

In Uganda, the introduction of VAT for Agricultural produce is posing serious challenges to formal business and has been an implementation nightmare. In Tanzania, rice producers are facing challenges after the introduction of an import tax and VAT, which have become barriers to trading in Uganda and Rwanda. Authorities in this country are also facing difficulties in ascertaining the origin of the commodity, due to previous decisions allowing duty free imports of rice, which would be repacked and distributed in the region as if it was originating from the region.

The above context sets the stage for the EAGC policy advocacy, as well as the other EAGC solutions and interventions aimed at facilitating efficient, structured, inclusive and profitable grain trade in the region.

We are happy to present a few case studies of some of the success stories we have recorded in the implementation of EAGC solutions and interventions in the recent past.

The EAGC solutions, which include development and promotion of Structured Trading Systems, provision of
market Information, training and capacity building and policy advocacy by providing a voice to the grain sector stakeholders, remain the focus of EAGC, working with partners in the region.

EAGC has successfully mobilized farmers into farmer groups, established village aggregation/grain bulking centres, certified warehouses, engaged banks and financial institutions to provide credit to farmers who have deposited grains in the certified warehouses using the grain as collateral, continued training and building capacity of stakeholders; and convened policy dialogue forums that bring together private and public sector policy makers.

We are happy to present a few case studies of some of the success stories we have recorded in the implementation of EAGC solutions and interventions in the recent past.

I invite you to enjoy reading this edition, and extend a warm invitation to all who are eligible to be members of EAGC (grain farmers/producers, traders/grain handlers/processors, service providers - finance, inputs, machinery etc), to join EAGC so that together we can find solutions and continue improving our sector.

I also extend a hearty appreciation to the EAGC members, and partners for their continued support, participation, collaboration and partnership with EAGC which continues to strengthen and develop the sector.

The EAGC solutions, which include development and promotion of Structured Trading Systems, provision of market Information, training and capacity building and policy advocacy by providing a voice to the grain sector stakeholders, remain the focus of EAGC, working with partners in the region.

I do hope that you will enjoy the reading and welcome comments, feedback and contributions to future ATPAF-ESA bulletins.

Gerald Makau Masila
Executive Director,
Eastern Africa Grain Council
1. Revisiting the Role of Governments in Agricultural Trade in Eastern and Southern Africa

By Kim Mhando, Eastern Africa Grain Council

Agricultural trade is rightly considered as an essential element of economic prosperity and food security. At country and regional levels, it provides sustenance for millions of people who depend on it for their livelihoods and provides foreign exchange earnings for governments. It also transfers food from areas of surplus to areas of deficit, therefore, creating substantial net welfare benefits.

In the last 20 years, there have been efforts by countries in Eastern and Southern Africa (ESA) – and indeed across the whole continent – to integrate their economies so as to expand markets and tap into economies of scale. At the heart of this process is the agricultural sector, which supports 70% to 90% of the people living in these countries and contributes up to a third of the national gross domestic product.

The importance of agriculture is reflected in regional plans and declarations such as the African Union (AU) and Common Market for Eastern and Southern Africa (COMESA), Comprehensive Africa Agricultural Development Programme (CAADP); the AU Malabo Declaration on Accelerated Agricultural Growth and Transformation for Shared Prosperity and Improved Livelihoods. Others are the AU Maputo Declaration on Agriculture and Food Security; the East African Community (EAC) Food Security Action Plan; the Southern Africa Development Community (SADC), Dar es Salaam Declaration on Agriculture and Food Security, and a host of other policy documents.

The growing efforts for regional integration are made simultaneously with a public-private partnership (PPP) approach to tackle challenges in the agricultural sector, where governments are encouraged to limit their involvement and take on supportive roles, as the private sector drives sectoral growth. PPPs are regarded as a worthwhile alternative to unsustainable public sector-led intervention, which is widely regarded as inhibitive to growth.

However, the numerous declarations and policies for enhanced regional integration and limited government intervention in the agricultural sector have not succeeded in curtailing the huge public sector presence in the agricultural sector, especially in agricultural trade. Among others, state-run corporations in the ESA region continue to have an active and dominant role in agricultural commodity markets, while governments impose rules and regulations in the name of protecting food security and livelihoods of the poor. This is done with minimal consultation with stakeholders.

While government intervention is not unwelcome, its modalities need to be examined and reconfigured. This bulletin scopes the role that governments in the ESA region are playing in domestic and regional agricultural trade, in areas such as domestic and cross-border trade, agricultural legislation and commodity exchanges. It also analyses the impact of such roles and provides policy recommendations for a more effective and efficient public sector role in agricultural trade.
2. Government intervention in grain markets: Help or Hindrance?

By Kim Mhando, Eastern Africa Grain Council

Despite contributing only about one-quarter of GDP for ESA countries, agriculture is the backbone of these economies – it is the primary source of livelihood for 70% of the population in almost all ESA countries (AfDB, 2010).

With such a huge dependence on the sector, its dynamics shape the lives of millions of people, most of who survive well below the global poverty line of $1.25 per day. Agriculture is, therefore, one of the most politicised in the ESA economies, with elections frequently won or lost based on its fortunes. This has meant that government intervention in agricultural markets, especially grain markets, is the mainstay of ESA’s political landscape.

There seems to be a split in government attitudes towards agricultural trade. Despite the shift towards trade liberalisation and regional integration, witnessed by the growth in the number and size of regional trading blocs and trading agreements, national governments still take a nationalistic approach to attaining food security and development of the agricultural sector. This is evidenced by the weak political will to address non-tariff barriers to regional agricultural trade. Thus, despite an overall perception of liberalised food markets, governments continue to intervene heavily, particularly in times of rising food prices, leading to tremendous unpredictability and frequent change of direction in their role in the market.

Governments justify their role in the agricultural markets on grounds that: (1) they are protecting farmers from exploitation from other value chain actors; (2) providing incentives for increased production by farmers to improve and/or maintain food security, and (3) stabilising commodity markets to keep control of inflation.

Despite these noble goals, decades of interventionist policies have only led to limited improvement in the development of food staple value chains. Such interventions may lead to market disruptions, cause uncertainty, reduce transparency and provide avenues for prevalence of corruption, exacerbate budget deficits, discourage investment and inhibit growth of the sector.

i) Direct government interventions

The most common form of direct government intervention in the grain market is through state-run bodies that carry a strategic food reserve or commercial function. Kenya has the National Cereals and Produce Board (NCPB); Tanzania has two state-run bodies, the National Food Reserve Agency (NFRA) and the Cereals and Other Produce Board (COPB); Malawi has the Agricultural Development and Marketing Corporation while Rwanda has the Rwanda Grains and Cereals Corporation. Unlike other countries in the ESA region, Uganda has no state-run body with a direct role in the grains market.

Kenya

The NCPB maintains the Strategic Grain Reserve (SGR) on behalf of the government to provide relief food to areas with food deficits. It also conducts commercial functions such as grain trading, grain handling and leasing of storage facilities. The organisation is tasked with maintaining a SGR of eight million bags of maize. The government is in the process of expanding the commercial functions of NCPB to include grain milling, evidently strengthening the government’s grip on the agricultural sector as a political and strategic tool.

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1 Jakob Engel and Marie-Agnès Jouanjean with Akanksha Awal, “The history, impact and political economy of barriers to food trade in sub-Saharan Africa: an analytical review. ODI, 2013
Tanzania

The modality of government intervention in staple food grain markets in Tanzania is similar to that in Kenya. NFRA in Tanzania also maintains the Strategic Grain Reserve (SGR) on behalf of the government and provides food relief, but does not have any commercial functions. However, the Tanzanian government has established the COPB, which will have commercial functions that include grain milling and packaging. It is yet to be fully operational.

The consequences

- Since both the NFRA and NCPB have the tendency to buy staple food grains at well above the going market price, they become price-setters and buyers of first resort for farmers. Private sector traders and millers have to match up their prices or face supply shortages, thus increasing the cost of production of milled products, which are then passed onto the final consumer.

- However, by setting higher prices, NCPB and NFRA are not able to absorb all the surplus produce that is available to them from farmers, especially during years of bumper harvests. This, creating a situation where not all farmers benefit equitably. This is backed by evidence from a recent study by Tegemeo Institute in Kenya, where the think-tank found that only 0.7% of farmers actually benefit from government intervention in grain markets.

- Both bodies also have a tendency to delay payments to farmers, sometimes for several months. Given that most farmers are smallholders with immediate financial needs; these delays create major disruptions in their daily lives and in preparations for the next planting season. The delays are also evidence that there are no real benefits derived by grain value chains in their continued participation in staple food markets. Instead, only disruption reigns.

- The fact that smallholder farmers prefer to sell to government agencies – which have limited resources to absorb entire surpluses – creates fertile ground for unethical trading practices and outright

2 See http://www.nation.co.ke/business/NCPB-Millers-Maize-Farmers/-/996/2798600/-/wv7cn7z/-/index.html

Farmers in Tanzania awaiting payment at a depot
corruption. Tales abound of some farmers and traders ‘jumping queues’ by offering bribes to officers of these agencies to ensure that their grains are purchased or paid for as soon as possible.

There are also incidents where farmers with good quality produce are turned back from purchasing centres, forcing them to sell at a loss to traders who offer to “rescue” them from their plight (the traders collude with officials at buying centres to resell the same produce). In both cases, honest farmers and traders lose, thus compromising the ability of the grain sector to reduce poverty.

- The ad-hoc nature of state-backed market interventions creates uncertainty in the market. Stakeholders are usually in the dark regarding the timing, the extent, the coverage and duration of such interventions; a situation which makes doing business in agriculture all the more unpredictable. Such uncertainty makes it difficult for the sector’s players to make correct business decisions, ultimately making them less responsive to future opportunities for trade and investment.

- Ad-hoc government interventions also undermine the performance of the warehouse receipts system for structured grain trade. For instance, a government may announce the release of maize into the market to address perceived food shortages, only to release an insignificant amount of the grain. The initial announcement sends prices spiralling downwards in anticipation of a maize glut in the market, only for such a glut not to materialise. Consequently, farmers and traders who borrowed funds on the back of warehouse receipts make losses if such announcements cause prices to fall drastically.

- Politicising grain commodities, especially maize, means that the bodies tend to act based on political exigencies without financial prudence, due to governments feeling the need to offer higher prices, which cannot be realistically paid to all farmers.

During the early months of the year, the Tanzanian and Kenyan governments were forced to extend financial assistance to NFRA and NCPB to ensure that the farmers who had sold their produce to these organs were paid their dues. In Tanzania, the government released Tshs15 billion to NFRA, borrowed from CRDB Bank (a local commercial bank), to enable partial settlement of outstanding debts to farmers, who were owed over Tshs85 billion. In Kenya, NCPB was provided with an extra Kshs1.5 billion by the Ministry of Agriculture to purchase maize from farmers. This approach is likely to be unsustainable and further widen budget deficits.

- Such problems experienced by farmers, especially during bumper harvests, have negative implications for future food security. Some farmers are even thinking of shifting to other agricultural commodities due to lack of reliable markets. Subsequently, there is a possibility that the 2015 season will witness a reduction in the production of staple food grains such as maize. This will exacerbate the less than favourable weather currently being experienced. The end result will most likely be higher food prices and reduced food security, ironically the problems that the governments seek to avoid through their interventions in the markets.

- As grain millers have been forced to match the prices being offered by NCPB and NFRA, final consumers also pay the price as the cost of milled flour increases. “When a price is set, this simply means that the cost of maize will rise as other dealers increase their prices to match that of the government; hence, increasing the cost of flour,” said Diamond Lalji, Chairman of the Cereal Millers Association in Kenya, earlier this year. Given the relative price inelasticity of demand for such staple commodities, consumers are likely to face increased food prices.

ii) Governments and Structured Trading Systems

Governments in several countries have been providing some form of support for structured trading systems for agricultural commodities, in an attempt to formalise agricultural trade. They have realised that disorganised
agricultural markets lead to exploitation of farmers, reduces incentives for increased productivity, lowers the quality of agricultural produce, increases transaction costs and reduces government revenue collection. This support has been through two distinct but related mechanisms: the warehouse receipt system and agricultural commodity exchanges. In fact, a symbiotic relationship exists between the two as they depend on each other.

**Warehouse Receipt Systems**

A warehouse receipt system is a system that facilitates storage of agricultural commodities and allows for them to be used as collateral for accessing credit from formal financial institutions through secure physical or electronic receipts.

Public sector-backed warehouse receipt systems (WRS) have been rolled out in Uganda, Tanzania and Ethiopia. Such support has been in the form of a legal framework and state-run organisations for regulating the system. The public sector is also in the process of laying down legal frameworks for WRS in Kenya and Rwanda.

**Uganda**

Uganda passed the Warehouse Receipt System Act, 2006, which forms the regulatory framework of the WRS in the country. The Act also established the Uganda Warehouse Receipt System Authority, whose functions include administering the WRS Act and promoting the use of the system. Since enactment of the law, the functions of the Authority have been bestowed on the Uganda Commodity Exchange (UCE). Licensed warehouses for the WRS have been established countrywide, especially in major grain producing areas such as Jinja, Kapchorwa, Kasese, Masindi, Lira and Gulu.

Although the legislative framework is in place and provides UCE with a mandate to regulate the WRS, its enforcement has been hampered by the limited capacity of UCE to effectively implement, promote and regulate the system.

A certified warehouse in Uganda

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There are several challenges that have limited its effectiveness and adoption, two of which are:

1. The absence of buyers at the Exchange, meaning that farmers who have deposited their commodities in UCE-licensed warehouses struggle to sell their stock and repay loans received from banks on the back of warehouse receipts;

2. And the fact that there are only a few banks that actively participate in supporting the WRS. In some places, there were reports of only one bank extending credit facilities through WRS. Given that farmers have pressing financial needs, inadequate service delivery from the financial services sector has forced them to sidestep the WRS and sell their commodities to middlemen in informal markets who, despite paying lower prices, offer immediate liquidity.

The WRS is based on storing high quality commodities and maintaining their quality for a long period of time. The shortage of suitable commodity storage facilities and low adoption of requisite post-harvest handling techniques have impacted on the quality of grain as smallholder farmers resort to storing grains in their houses, rather than in suitable warehouses or aggregation centres. Without adoption of commodity standards for production and trading of high quality commodities, the WRS is severely compromised.

On standards, there are no clear financial incentives for compliance with regional standards of agricultural commodities. There are no significant price premiums being offered for high quality grain – grade 1 maize tends to sell at more or less the same price as sub-standard grain, despite costing more to produce. The lack of financial incentives to comply with standards is a crucial stumbling block in the adoption of the said standards and the WRS in general.

Tanzania

Tanzania passed the Warehouse Receipts Act in 2005. Like Uganda, the WRS Act established a state-run organisation, Tanzania Warehouse Licensing Board (TWLB), to administer the Act. The board is fully operational and is charged with regulating and promoting the WRS in the country. By 2013, TWLB had licenced 21 warehouses across the country with a combined capacity of 138,500MT. While Tanzania has been well ahead in creating a sound regulatory framework for WRS, several challenges still prevail and limit the effectiveness of the system.

The biggest challenge facing the WRS in Tanzania, which is present also in Uganda, is the politicisation of chief agricultural commodities and frequent government intervention in the market. The WRS, like structured trading regimes in general, thrives in a transparent environment with clear and predictable mechanisms for involvement of all parties.

As government intervention tends to be uncertain and enforced in an ad-hoc manner, the very foundations of which the WRS is based are shaken, thus reducing the benefits of the system to value chain actors and discouraging their participation.

Case Study: The Experience of Gendi Rural Cooperative Society with the WRS in Tanzania

Gendi Rural Cooperative Society is a farmer-based organisation in Babati, Tanzania. It borrowed funds from a bank using a warehouse receipt as collateral, in the hope of selling its maize stock when prices rose to around Tshs45,000 per 100kg bag. In March 2012, the government announced that it was releasing maize into the market from its strategic grain reserve to combat food security challenges. However, no details were provided regarding when the maize was to be released or what quantities would be released. This announcement led to a drop in maize prices to around Tshs31,000 per 100kg bag. In March 2012, the government announced that it was releasing maize into the market from its strategic grain reserve to combat food security challenges. However, no details were provided regarding when the maize was to be released or what quantities would be released. This announcement led to a drop in maize prices to around Tshs31,000 per 100kg bag, forcing the lending bank to sell the maize to recover its loan before prices dropped further. The FBO made losses as all the proceeds went into repaying the bank loan. To add salt into their wounds, the actual stock released by the government from the grain reserve was insignificant and prices increased dramatically to Tshs60,000 per 100kg bag. The cooperative, therefore, made both accounting and economic losses in two to three months. This raises the question: do policymakers have the political will to see the WRS flourish in the country in the interest of reducing poverty for the rural population?
Kenya

The WRS has existed in Kenya for several years without the support of a formal regulatory framework. This has been pointed out as one of the reasons for slow adoption of the system in the country, and limited support from service providers such as financial institutions.

Case Study: Warehouse Receipts changing lives: the story of Elizabeth Sang and Mwihoko Limuko Self Help Group

Elizabeth Sang is a maize farmer in Kipchamo, Uasin Gishu County in Kenya. She has been a grain farmer all her life and farming is the only income-generating activity that supports her family. As it is for many other farmers in Uasin Gishu County, the main market for Elizabeth’s maize after harvest was the National Cereals and Produce Board (NCPB).

Although the NCPB promised good prices, she usually had to wait for several months before she could receive payment. Desperate for cash to meet pressing needs at home, she frequently sold her grains to small traders who offered lower prices but were willing to pay cash immediately. The mantra was, ‘better something than nothing.’ She also struggled with storage of her harvest and lack of cash to expand her farming activities.

However, in 2011 through her membership in the KIPEP farmer group in Kipchamo, she became a beneficiary of the EAGC WRS. EAGC trained her and other KIPEP members on the system, price monitoring through the RATIN market information system, post-harvest handling and value addition. The organisation also assisted them to market their grain while in storage and to access credit from Chase Bank through warehouse receipts.

The farmer now pays tribute to the WRS for improving her livelihood. The system has allowed her to avoid exploitation by middlemen, thus enabling her to get better prices. During one season, she managed to sell her maize for Ksh3,300 per 90kg bag after storing it for three months in a certified warehouse, compared to the KSh2,700 that she would have earned had she sold it at the time of storage. The extra income has allowed her to expand her maize farm from 35 to 60 acres, and loans from the bank have allowed her to acquire inputs in good time to prepare for the next season.
Rwanda

The WRS system in Rwanda is championed by the East Africa Exchange (EAX), a regional commodity exchange established in 2013. EAX certifies warehouses and issues warehouse receipts, which can be used to secure loans from banks. The exchange had certified 15 warehouses with a combined capacity of 38,000 MT by the end of 2014.

EAGC has also been promoting Structured Grain Trading in Rwanda and provides market information through its Regional Agricultural Trade Intelligence Network (RATIN) service (www.ratin.net). Over the past couple of years, the Council has conducted a number of training courses for stakeholders involved in Structured Grain Trading to enhance their capacities to effectively participate in Structured Grain Trade.

Rwanda is currently enacting legislation for establishing and regulating the WRS to support use of stored grain as collateral. Without such a law to operationalise and regulate the WRS, banks are cautious about embracing the system, which they feel exposes them to additional risks in the absence of robust regulatory frameworks. This has been a stumbling block on efforts to increase adoption of the system.

The WRS is currently being implemented on the basis of the law of contract; however, some banks feel that contract law is not explicit in addressing the challenges of using grain as collateral. Only two banks, the Bank of Kigali and Ecobank, have signed agreements to finance smallholder farmers who use their grain as collateral.

Elizabeth’s story is also observed in other areas of Kenya that have participated in the WRS. In 2012, the Mwihoko Limuko Self Help Group in Kabatini, Nakuru Country, received support from EAGC to participate in the WRS. Since then, group members have witnessed transformation in their lives. The group has been able to realise a profit margin of over Ksh700 per bag after selling their maize three to five months after harvest, having deposited it in a certified warehouse.

The extra income has allowed the group to diversify into other income-generating activities such as supplying seats for community functions and weddings. At household level, group members are now able to provide their children with better education, clothing, and even purchase TVs and radios that keep them in contact with the outside world.

It is, thus, evident that when properly implemented, the WRS can improve the standard of living of farmers in Africa. For such benefits to be realised by smallholder farmers on a much larger scale, the WRS needs an environment that is free from external shocks such as abrupt changes in government policy and the current modality of government participation in grain markets.
Ethiopia

Similar to Rwanda, Ethiopia has a WRS being championed by the Ethiopia Commodity Exchange (ECX), a state-backed exchange established in 2008. A legal framework for the WRS is in place through Proclamation No. 550/2007, which is the basis of the ECX and succeeded Proclamation No. 372/2003. Under the Proclamation, ECX is authorised to operate warehouses, to carry out weighing and inventory management of agricultural commodities, and to issue exchange warehouse receipts for exchange trading. The Proclamation also mandates ECX to develop its own rules for the governance of its operations such as membership, management, trading, warehousing, clearing and settlement, and the conduct of members. Proclamation No. 551/2007 also established the Ethiopia Commodity Exchange Authority (ECEA), a regulatory body of the ECX.

The WRS regulatory framework in Ethiopia is generally regarded to be commendable. The ECX is founded on public-private partnership principles, with the government mostly restricted to providing regulatory support. The corporate establishment of ECX clearly separates Ownership, Membership, and Management. Thus, owners cannot have a trading stake, members cannot have an ownership stake, and the management can be neither drawn from the owners nor from the members. As Owner, the Government of Ethiopia underwrites all performance risks of the Exchange; Members are liable for contract performance on their own trades, as well as of their Associates and Authorized Representatives.

The WRS regulatory system, however, is not without fault, including in other legislations which interact with the WRS in one form or another. For instance, the cooperatives and unions Bylaw does not allow the

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4 Derived from AGP-AMDe- Ethiopia Warehouse Receipt System and Regulation: A Case for Expansion, a report by USAID
5 Derived from ECX website
management committee to borrow more than 100,000 birr. This has been a barrier, restricting participation of the farming community in the warehouse receipt financing scheme.

iii) The government in Agricultural Commodity Exchanges

There are several agricultural commodity exchanges operating across the ESA region and a few more in the pipeline. They have been established in Ethiopia, Kenya, Malawi, Rwanda, Uganda, Zambia, Zimbabwe and South Africa, while Tanzania is in the process of establishing its own commodity exchange.

Most of these exchanges have been or are in the process of being established by their respective national governments, which shows the commitment of governments in promoting organised commodity trading and increased market efficiencies.

Commodity exchanges are highly capitalistic systems, which thrive in an environment where: (1) the government plays a purely supportive and regulatory role with transparent and predictable rules for state intervention; (2) there is a high degree of transparency and market information; (3) large volumes of commodities available for trade; (4) strong, trustworthy, unbiased and decisive institutions and mechanisms for dispute resolutions; (5) and substantial support from the financial services sector for financing and facilitating the settlement of transactions.\(^6\)

Given such requirements and the current politicised nature of staple food commodity markets in most ESA countries, it will take a substantial shift in public sector mentality to allow commodity exchanges to flourish. With commodity prices fluctuating based on market dynamics, it is likely that such fluctuations may – at least initially – exceed the range “acceptable” to policymakers. They may fall too low, thus encouraging state-run marketing boards to buy commodities from producers at higher prices, or they may rise too high and force governments to intervene to cool down prices in the interest of tackling inflation and protecting consumers.

These interventions provide information advantages to parties with insider knowledge of forthcoming government actions and the effects that such actions will have on prices\(^7\). Parties without insider knowledge are discouraged from participating effectively on the exchange (such as by taking forward positions), thus reducing the potential trading volumes of the exchange. This creates a domino effect: unpredictability reduces incentives to store grain and invest in new storage facilities, which are both critical for the development of a functional spot market and forward market; reduces incentives for the financial services sector to support commodity exchange transactions and reduces transparency, all of which threaten the very existence of commodity exchanges.

This is not to say that governments cannot effectively act to fulfil their social obligations with regard to food security in the presence of commodity exchanges.

\[\text{Most of these exchanges have been or are in the process of being established by their respective national governments, which shows the commitment of governments in promoting organised commodity trading and increased market efficiencies.}\]

In Brazil, for example, the Securities, Commodities and Futures Exchange provides a platform for government participation by facilitating grain procurement from smallholder farmers\(^8\). Government intervention is not the problem; it is unpredictable government intervention that substantially reduces tradable surplus, which threatens the viability of commodity exchanges.

In addition, commodity exchanges in the current situation will only make economic sense if they are established at regional level instead of country level. Commodity volumes are still low at individual country level, thus transaction costs are not significantly reduced by having an exchange. At regional level, there would be greater pooling of commodities that would make it easier to achieve economies of scale, thus reducing transaction costs. Lower transaction costs are key advantages of a commodity exchange and at the core of their viability and sustainability.


\(^7,8\) ibid
iv) Government regulation of Cross-border Trade

Apart from having state-run bodies with active participation in staple food markets, regional governments also manipulate such markets indirectly. This usually occurs in form of non-tariff measures imposed on certain commodities, including periodic trade bans, cumbersome import and export licensing, illegal or duty-free importation of food commodities, and restrictive sanitary and phytosanitary standards. Such barriers have had an overwhelmingly negative impact on the regional agricultural sector by curtailing its growth potential and broader poverty reduction efforts.

Trade Bans

Trade bans, especially export bans, tend to be the weapon of choice for ESA countries when it comes to addressing food security challenges in their countries. Examples of export bans in recent years include9:

- December 2006: Ethiopia’s ban on exports of teff, wheat, maize and sorghum
- 2007/08: Malawi’s ban on all exports of maize
- January 2008: Zambia’s ban on maize exports
- June 2008: Ethiopia’s ban on exports of all cereals
- October 2008: Kenya’s ban on exports of all food crops
- June 2009: Zambia’s ban on wheat exports
- 2009/10: Tanzania’s export ban on maize and rice
- March 2011: Tanzania’s export ban on maize

Despite commitments at regional level to eliminate such barriers, ESA countries have persisted with periodic bans. Not only do they have the propensity to institute such bans, they also have the tendency to enforce them in an ad-hoc manner, which increases uncertainty in already uncertain commodity markets.

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9 See footnote 1

Trucks awaiting clearance at the Malaba border between Kenya and Uganda
These policies have been counter-productive and increasingly ineffective, given the prevalence of informal cross-border trade, as the private sector reorganises around the sector. As long as there are profits to be made, trade will continue but with higher transaction costs. The net losers are farmers in the “exporting” country, due to suppression of prices in their domestic markets; and consumers in the “importing” country, who bear most of the increased costs of informal trade by having to pay higher prices for the final product. The government also loses out on tax revenues, thus creating a lose-lose situation throughout.

There is also evidence that government intervention is based on poor or insufficient information regarding the prevailing food security situations in their countries. Governments tend to lack up-to-date information on stocks and prices within their countries, to correctly inform policy decisions. This leads to mistiming policy interventions or enforcing the wrong policies altogether to the detriment of the domestic and regional staple food markets.

Duty-free imports of commodities from outside the region

There has also been a tendency for some countries in the ESA region to relax import restrictions on staple food commodities that originate from countries outside Africa (mostly Asia), on grounds of addressing food security concerns.

Such measures are undoubtedly necessary during genuine food crises but most of the time they are introduced even when the domestic food security situation does not warrant them or can be addressed by opening up to regional markets.

Not only do such actions hurt the livelihood of local producers, they also impact producers and markets across the region negatively, given the increased integration of regional markets. Since most producers are smallholder farmers, such policies reduce the effectiveness of poverty reduction efforts founded on agriculture, and jeopardise future food security as domestic production is discouraged.

The rice market is a case in point: Africa loses over $5 billion annually on rice imports and accounts for almost one-third of global rice imports. The Tanzanian government has been lax on persistent illegal imports of rice, despite increasing production in the country. Given the relatively high domestic production of rice, illegal rice imports undercut domestic producers and undermine efforts to boost their productivity for tapping into regional markets. It also means that the country fails to strictly enforce the 75% Common External Tariff, as endorsed by EAC to protect the regional rice market.

Conclusions

Ideally, the role of government is to provide a favourable trading environment that supports agricultural commodity trade within their countries and across national boundaries. Governments should reduce their domination of commodity trade and support the more efficient private sector to participate effectively, in order to achieve broad-based economic growth and development.

Governments in the ESA region have achieved major progress in strengthening regional integration, which is essential for promoting agricultural commodity trade. Notable successes include:

- Initiatives to reduce NTBs: EAC countries adopting the Single Customs Territory and establishing one-stop border posts to boost trade flows.

- Increased transparency about NTBs: EAC, COMESA and SADC set up the NTB monitoring, reporting and eliminating mechanism (available at www.tradebarriers.org) under the Tripartite Free Trade Area to boost efforts to tackle NTBs.
• Reduction in the proliferation of trade bans on agricultural commodities: the Tanzanian government has pledged to stop such measures in the future

However, a lot more still needs to be done to ensure truly meaningful and effective public sector intervention in agricultural commodity markets. Suggestions include:

• Reducing direct government intervention in agricultural commodity markets. State-run bodies such as NCPB and NFRA in Kenya and Tanzania should refrain from active participation in the market. Sound and predictable rules that govern their participation when such participation is necessary should also be put in place.

• Commodity exchanges, which are currently the vogue, should be independent and led by the private sector. The role of the public sector should be limited to providing regulatory support with clear and predictable rules for its direct intervention.

• Governments should support the establishment of integrated structured trading systems for commodity trade. This entails, among others, supporting and promoting establishment or strengthening of warehouse receipt systems through suitable regulatory framework and incentives; promoting establishment of suitable commodity storage warehouses and availing excess public sector storage facilities to the private sector in a transparent manner; and putting in place mechanisms to promote financing of the agricultural sector.

• Governments should invest in data collection and intelligence gathering, to develop a comprehensive and up-to-date database on agricultural market dynamics to allow evidence-based policy decision-making.

• Governments should also pursue the establishment of commodity exchanges at regional levels.

The few who benefit from opaque, unstructured and restrictive trade regimes have the most information about how they benefit from such regimes. They wield strong influence and lobbying powers, while the majority of society who are the main beneficiaries of liberalised, structured trading regimes, are relatively unaware of the gains that can be realised from liberalised, structured markets. They also have weaker lobbying powers. The government, private sector, civil society and development partners, need to do more to reduce the influence of the beneficiaries of restrictive trade regimes and create momentum for increasing trade liberalisation and deepening regional trade linkages.
3. New Agricultural Legislations in Kenya: Food for Thought

By Kim Mhando, Eastern Africa Grain Council

The Government of Kenya has recently begun enforcing two new agricultural legislations: the Agriculture, Fisheries and Food Authority Act (AFFA) (No. 13 of 2013), and the Crops Act (No. 16 of 2013). The broad objective of the two Acts is to streamline the regulatory framework for the agricultural sector in the country, to foster its growth and development. This is in line with national development plans such as Vision 2030. AFFA replaces 10 regulatory bodies, which have previously governed the agricultural sector, and repeals 14 pre-existing legislations for the sector.

The Acts bring a number of changes to the way the agricultural sector in Kenya is regulated from production through to the marketing of finished products. By repealing numerous pre-existing legislations and their multiple organs, the laws should ideally reduce bureaucracy and provide more clarity on the way the agricultural sector is governed.

The Crops Act also provides for the establishment of the Commodities Fund, which will be used to extend credit facilities to farmers for farm improvement, farm inputs and farming operations. If the Fund is used effectively for its intended purposes, it will go a long way in boosting growth of the sector.

Despite the praiseworthy intentions of the government, there are several issues in the two statutes that will impede their effectiveness. Looking at the statutes holistically, they make provisions that essentially micromanage the Executive. In an ideal scenario, Acts of Parliament should only provide a legal framework for the management of a sector or aspect while the Executive, in the form of the relevant ministries, makes the specific regulations for the sector. By making provisions in the Acts that are almost regulations by nature, the legislative assembly is encroaching onto the functions of the Executive, which in turn blurs the function of the Assembly to hold the Executive accountable for its actions.

The devolution of agriculture to county governments is also evident in the two statutes, as is the case in the Constitution. Devolution entails that each county government is responsible for agricultural matters in their respective counties, including setting county-level policies, strategies and regulations. However, agriculture is not just a sector that provides for the livelihood of 75% of Kenyans; it is also a sensitive sector that should be managed at the national level.

Moreover, some agricultural interventions may transcend county boundaries and become a source of dispute between counties if their agricultural policies or regulations are in conflict. While AFFA shall have a coordination function with regard to government intervention in the agricultural sector, both the AFFA and Crops Acts do not clearly stipulate how such disputes between counties shall be resolved. This lack of clarity can increase bureaucracy in the agricultural sector and may hamper effective implementation of sector interventions, contrary to the intended objectives of the Acts.
The Acts also exhibit inconsistencies amongst themselves and with other legislations that are relevant to the agricultural sector. This is evident through the AFFA Act referring to the Kenya Plant Health Inspectorate Service (KEPHIS) as a “former institution” that is essentially absorbed by AFFA, while the Crops Act does not repeal the KEPHIS establishing Act, thus implying that KEPHIS continues to exist independently. This creates confusion as to the legal status of an important body such as KEPHIS and undermines its mandate.

Evidence of undermining KEPHIS, its establishing Act as well as the Seeds and Plant Varieties Act (which has not been repealed) is also found in Section 29 of the Crops Act, which stipulates that the Crops Act supersedes any other Act. This creates a potential for conflict between KEPHIS and AFFA, two government bodies under the same ministry, as some of the clauses in the Crops Act, which is enforced by AFFA, interfere with the functions of KEPHIS and provisions in the Seeds and Plant Varieties Act.

Some of the functions of AFFA as provided for by the AFFA and Crops Acts; also seem to duplicate the functions already vested in the National Cereals and Produce Board (NCPB), especially as the NCPB Act is not repealed. The duplication of functions creates overregulation of the agricultural sector, especially the grain sub-sector, and conflicts with the objectives of the Crops Act, which is to reduce unnecessary regulation and duplication of functions.

It is also apparent that there was not enough stakeholder consultation on the Acts during their development. This is evidenced by the composition of the Board of Directors of AFFA, as provided for under Section 5(1) of the AFFA Act. Under the clause, the board consists of representatives of the government while eight farmer representatives are the only representatives of the private sector. Given the functions of the Authority under Section 4(b), the absence of representatives from other levels of the agricultural value chain such as traders, processors and sector apex organisations, may inhibit effectiveness of the functions of AFFA.

Admittedly, it is difficult to ensure that all agricultural sector stakeholders are directly represented on the board given the diverse nature of the sector, but suitable representation could be achieved by appointing apex organisations to the Board. This could include Eastern Africa Grain Council to represent the grain sector, the Kenya Flower Council to represent the horticultural sector, the Kenya National Farmers Federation, the Kenya Private Sector Association, and so on. A good mix of private and public sector representation will go a long way in ensuring that AFFA fulfils its functions effectively.

There is also concern that the new legislations may increase the cost of doing business through registration and licensing requirements, as well as statutory levies introduced by the Acts. With regard to registration and licensing, it is not clear whether the licences stipulated under the Crops Act replace or add to existing business licensing procedures. If it is the latter, it means the additional layer of bureaucracy will increase the cost of doing business in the sector.

The legislations also impose levies of up to 14% of crop value, meaning that they add costs to an already inefficient sector. Ideally, the Acts should contain provisions to do the exact opposite, such as significantly reducing county cess or removing them altogether. Profit margins in agribusiness are small and rely on large volumes of transactions to become financially attractive – levies threaten to eat into profit margins and discourage investment in the sector.

Though the two Acts attempt to do the right thing – make regulation of the agricultural sector more efficient and effective to achieve sectoral development – they do it in the wrong way (overregulation, micro-management of the Executive, added bureaucracies and costs of doing business), and are thus counterproductive. For the Acts to achieve their intended objectives, the government and the legislature need to take urgent steps to address the various shortcomings in the legislations to create an efficient, transparent and robust regulatory framework. It is hoped that policymakers will have the political will to carry out the necessary changes.
4. VAT in Uganda Hurts the Agricultural Sector

By Kim Mhando, Eastern Africa Grain Council

In the 2014/15 National Budget, the Government of Uganda removed zero-rating of value added tax (VAT) on, among others, agricultural inputs and civil works related to infrastructure, education and health sectors. Goods and services falling in such categories became the subject of an 18% VAT, which was expected to yield over 30 billion Uganda shillings in additional tax revenue for the government.

According to the budget speech by Hon Maria Kiwanuka, minister of Finance, Planning and Economic Development, VAT exemptions for intermediate inputs created a complexity in the underlying tax structure and administration of VAT. Therefore, zero-rating was removed to promote transparency, formalisation of business, enhance revenue mobilisation and improve compliance in the management of VAT.

In the agricultural sector, the following products and services were affected:

- Supply of agriculture and dairy machinery,
- Supply of feeds for poultry and livestock
- Civil works related to agriculture
- Supply of seeds, fertilisers, pesticides and hoes
- Supply of cereals grown, milled or produced in Uganda
- Supply of processed milk and milk products
- Supply of machinery and tools for agriculture

The removal of zero-rating of VAT on the agricultural sector has been widely derided for its potential to undermine past and present efforts to boost growth of the sector. Agricultural inputs and equipment instantly became more expensive; prices of fertiliser reached UGX 175,000 per 50kg bag of NPK fertiliser in March 2015, compared to a maximum UGX 150,000 per 50kg bag a year earlier. In March 2014, hybrid maize seed sold for at most UGX 8,500 per kilo but a year later, it had shot up to UGX 13,000 per kilo.

Agric produce ready for sale in Uganda
The agricultural sector was already underperforming prior to the imposition of VAT on agro-inputs. Since 2002, the sector has been growing slower than the population. Production of cash crops has declined since 2008, while agriculture in general has grown at less than 5% annually since 2002. Given this background, VAT on agro-inputs will cause the sector to slow down even further and possibly contract. The VAT is ill-timed, especially with the government allocating just 3% of the national budget to agriculture, contrary to the Malabo Declaration that called for 10% of national budgets to be allocated to the sector.

A study by the Economic Policy Research Centre (EPRC) shows that VAT on agro-inputs has a 2-prong effect: firstly, it increases the cost of fertiliser, thereby increasing the cost of production and lowering the net returns for producers. Secondly, the higher cost of agro-inputs is likely to be reflected in higher prices for agricultural commodities. This will reduce their uptake further up the value chain, and result in lower net returns for producers.

EPRC noted that profitability of agricultural commodities declines as a result of the VAT. Maize profitability declines by more than 15%, from UGX 328,000/ha to UGX 278,000/ha while profitability in beans production declines by 6%. In total, maize and beans farmers alone lose about UGX 114 billion (USD 43.3 million), well in excess of the UGX 30 billion revenue expected to be raised by the government from the VAT.

The losses suffered by farmers in Uganda also have a regional dimension, especially in cross-border grain trade. There is evidence that Ugandan maize may become less competitive in regional markets as a result of the VAT and could affect exports to Kenya, a major importer of maize in the EAC region.

In the first three months of 2015, maize at the Busia Border between Uganda and Kenya became more expensive than in Arusha, a town close to the Tanzania-Kenya border, compared to the same period in 2013 and 2014, as illustrated in Table 1 below. Prices of maize in 2015 are lower than in 2013 and 2014, given the bumper maize harvest in the region in the 2014 season, which has had spill-over effect into 2015. While the price variation between Busia and Arusha has been declining over the past few years, the price difference sharply dropped in the early months of 2015 and maize was cheaper in Arusha compared to Busia in March. This can be attributed to increased costs of production in Uganda, as a result of VAT on agro-inputs.

## Conclusions

In summary, imposing VAT on agro-inputs limits the growth potential of the agricultural sector and disproportionately affects smallholder farmers. The VAT causes more harm than good as reflected in the losses suffered by the agricultural sector vis-à-vis tax revenues. The government should find alternative means of raising tax revenues and encouraging more efficient use of the same. According to the Auditor General report for 2013/14 Financial Year, “wasteful” expenditure amounted to UGX 7.4 billion and USD 3.6 million. This creates a clear case for boosting efficiency in government expenditure first before seeking new sources of funds.

### Table 1: Average monthly prices of maize at Busia and Arusha towns (in USD per metric tonne)

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<th>2013</th>
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<td></td>
<td>Jan</td>
<td>Feb</td>
<td>Mar</td>
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<tr>
<td>Arusha</td>
<td>405</td>
<td>460</td>
<td>455</td>
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<tr>
<td>Busia</td>
<td>291</td>
<td>303</td>
<td>325</td>
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<tr>
<td>Variance</td>
<td>214</td>
<td>157</td>
<td>130</td>
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Adapted from RATIN
5. Tanzania Rice exports in the EAC markets suffer decline due to Policy & Regulatory deficiencies

By Kim Mhando, Eastern Africa Grain Council

Rice is one of the most important commodities in Tanzania, supporting 20% of farming households in the country. Tanzania is also the second largest producer of rice in East Africa after Madagascar, and the largest producer in the EAC bloc. Tanzania exports rice to Kenya, Democratic Republic of Congo, South Sudan and Somalia. Consumption of rice in East Africa is estimated to grow at 4% annually on account of growing populations, increased demand by the expanding middle class and increased consumption by producers themselves.

The growth in rice consumption in the EAC region presents a huge opportunity for Tanzania’s rice farmers. However, weaknesses in trade policy prevent rice value chain actors from fully exploiting opportunities provided for under the EAC bloc. These deficiencies include cumbersome export procedures, onerous local government taxes and operational shortcomings, such as validity and reliability of trade data for policy decision-making and low awareness by traders and border officials.

Export procedures

The process of obtaining a National Food Export Permit (NFEP), which is required by all food exporters, is burdensome and costly. It involves district, regional and the Ministry of Agriculture, Food Security and Cooperatives (MAFC) as well as the Tanzania Revenue Authority (TRA). Traders are required to obtain the following documents for exporting rice or any other food commodity:

i. Letter to District Administrative Secretary (DAS) requesting to be issued with the NFEP
ii. Forwarding letter by Regional Administrative Secretary (RAS) to MAFC for exporter to be issued with NFEP

iii. NFEP is issued by MAFC

iv. Letter of validation of NFEP issued by RAS

v. Letter of validation of NFEP issued by DAS

Obtaining these documents requires travel to relevant district and regional offices as well as MAFC in Dar es Salaam and may take up to four weeks to secure all the documents.

Recognising the cumbersome process and subsequent effects such as corruption and rent-seeking behaviour, the government made efforts to streamline the issuance of export permits by eliminating the DAS and RAS from the process. However, problems continue to persist partly because of disconnect between central government in the form of MAFC and regional, district and border officials. For instance, regional offices continue to demand letters of validation in addition to the export permit issued by MAFC, which undermines efforts by MAFC to make cross-border trade smoother.

Secondly, traders have been compelled to obtain validation letters from TRA as a supporting document to their export permits to be presented to border officials. Although the TRA validation letter is not an official requirement, it has become necessary due to delays in transmission of copies of the export permit to relevant border points for authentication of export permits. The TRA validation letters add an extra layer of bureaucracy to the export process.

Local Government Taxes

Cess charged at district level is widely regarded as a significant obstacle to trade. Five per cent cess is levied by the “source” district from which rice originates. This cess is usually passed down to farmers by traders. Given that farmers frequently sell their produce at prices below their cost of production, the added financial burden passed onto them is damaging to their livelihoods and undermines efforts to boost their productivity.

Impact

It is not clear what public policy goals the cumbersome export permit system for staple foods aims to achieve and only seems to contribute to the cost of doing business in regional staple foods trade. Given that transport costs account for almost 85% of transaction costs in staple food transactions in Tanzania, which are already higher than in neighbouring Kenya and Uganda, the export policy deficiencies outlined exacerbate the situation by directly and indirectly increasing rice marketing costs.

Unlike domestic trade where marketing costs, can to a certain extent, be passed on to final consumers, the need to ensure that rice remains competitive in markets in neighbouring countries means that farmers bear the brunt of the marketing costs, associated with inefficient staple food export policy and procedures. This undermines efforts to boost domestic production and prevents rice producers from taking advantage of growing rice demand in the EAC region.

Conclusion

Tanzania has the potential to not only feed itself but also become a hub of food exports to neighbouring countries and elsewhere in the region, and contribute to national development objectives. The government needs to stay committed to efforts to boost the growth and development of agriculture and provide incentives for producers to increase production. It also needs to address factors that inhibit exports of staple foods such as rice to lucrative markets in neighbouring countries, so as to complement the pledge it made in 2013 to stop export bans on staple foods.
Regional integration is nothing new to Africa. The African Union Commission recognises eight Regional Economic Communities (RECs), while numerous less-recognised, less-formal regional integration efforts exist across the continent. Such is the popularity of RECs that many countries belong to more than one bloc, all in the name of harnessing the power of regional integration in driving economic development.

The Tripartite Free Trade Area (TFTA), which was officially launched in June 2015 following a Heads of State Summit in Sharm-el-Sheikh, Egypt, is the latest regional integration initiative in Africa and creates the single largest economic bloc on the continent.

The TFTA combines the COMESA, EAC and SADC blocs, bringing together 26 countries, 650 million people and a combined GDP of over one $1 trillion, roughly more than half of Africa’s GDP under one market. A Continental Free Trade Area has also been mooted.

One is tempted to believe that the high popularity of RECs on the continent reflects the level of awareness and passion for regional integration amongst the citizenry on the African continent. One is tempted to believe that to a large extent the African society realises the potential borne by regional integration to improve their lives.

Alas, the reality on the ground is quite different. If one were to judge from outcries in the recent past when regional integration efforts moved from policy documents and treaties to actual implementation, then it becomes clear that the citizenry – and some might argue the politicians – are relatively ignorant on what regional integration actually means and the benefits it entails.

A case in point is the sugar saga between Uganda and Kenya in the second half of 2015. Following a State visit...
it by President Uhuru Kenyatta of Kenya to Uganda, there was a great outcry after it was announced that Kenya will import duty-free sugar from Uganda (a fellow EAC Partner State) in an attempt to save Kenya significant sums of foreign currency used to import sugar from as far afield as Brazil.

Similarly, Kenyans were also up in arms when Kenya Airways’ weekly flights to Tanzania were reduced from 42 to 14 in early 2015 (the decision was later reversed). An outsider would wonder why Kenyans would find it wrong to be denied more flights to Tanzania while Uganda is denied a chance to sell its sugar to Kenya.

Although politicians are quick to use misinformed fears about regional integration to try and score political mileage as the government tried to explain the merits of the deal, what emerges from public discontent when regional integration efforts are being implemented is that there is a lack of awareness on what exactly regional integration entails or its benefits and opportunities.

This also brought home the need to make the people understand what integration means in their lives and the sacrifices that must be made to make it work.

Even though the ‘new’ EAC (it was revived in 2001 about 20 years after the collapse of the original Community) is now 15 years old, many citizens of the region still haven’t reconciled themselves to the fact that increasingly, we have all become ‘citizens without borders’ at the regional level and more generally due to the global multilateral trading system through the World Trade Organisation (WTO).

Not many people even know that the EAC might one day become a political federation, and its implications. The absence of a structured way to enable the people, who are the real ‘owners’ of integration, to track its progress, is perhaps its Achilles’ heel.

We need to embrace ‘regionalism’ as the new normal. This is the era of integration and its benefits abound. Regionalism offers better markets for our produce and gives us access to better products and choices in service.

We must accept that the ‘region’ is not about the Heads of State, who sign a treaty here, attend a summit there and pass a resolution elsewhere. Though the political leadership has its place in spearheading the process, building a new shared regional culture, values and supranational institutions involves all the people to ensure that the benefit will outlast all of us. Integration is about us, the people.

In many ways, we are already interacting regionally. At least about one million tonnes of the maize consumed in Kenya and about 60 per cent of our rice and wheat is sourced from Uganda, Tanzania, Malawi, and Zambia, Argentina, and Pakistan, to name but a few. We are sustained by the efforts of people we have never met. We must transcend our nationalistic thinking. The region is bigger than us and offers better and bigger opportunities.

That every day we step out of our houses groomed is testimony to the virtues of international trade. We don a suit made in Turkey, an American shirt accessorised with a tie from England, rounded off with a leather belt from Ethiopia, a Swiss-made watch and a pair of shoes from China. After we have logged in six hours or so at our desks, using a computer made in Seattle (America), we then sit down for lunch to enjoy ugali made from flour milled by Mama Millers in Thika with maize imported from Zambia. We down this with Ceres juice imported from South Africa. We are more regional and international than we ever realise and must be more accommodative.

Our own tea, coffee and flower industries are sustained by other people’s money. Our tourism industry has been sickly because we could not get enough foreign tourists. Due to this, hotels closed down and jobs were lost. Consequently, tenants could not pay rent and landlords lost income. If and when this system of interconnectedness fails to work, we all lose. When it works, we all benefit. It is called the multiplier effect.

Thousands of employees who depend on the flower industry and the billions in foreign currency that Kenya earns would never come if others refused to buy from us.
But regionalism comes with new responsibilities. It implies learning to accommodate new ways and cultures of not just those within our national borders but of others who might not look or behave like us.

So, let us agree that countries belonging in the same REC should be able to freely trade with each other with no impediment, be it goods such as sugar and rice or services such as aviation. Whether that sugar originates from Ugandan farms or is re-exported from Brazil is another matter under the applicable rules of origin (ROO). Cross-border trade should be as seamless and painless as importing cars from Japan.

There are ‘Anti-dumping’ laws that the States must abide by. As long as these are adhered to, we should all be free to trade irrespective of the politics of the day.

The citizenry should also take cognisance of the fact that regional integration is here to stay.

In 2001, Presidents Daniel Arap Moi (Kenya), Yoweri Museveni (Uganda) and Benjamin Mkapa (Tanzania) appended their signatures to the pact to renew regional cooperation. Rwanda and Burundi were admitted into the Community in 2007. ‘One people, one destiny’ is the slogan of the East African Community (EAC) that has enshrined a political union in its founding treaty and which might become a political federation. In the meantime, the EAC has advanced from a Free Trade Area to a Common Market, indicative of increased integration amongst Partner States.

The EAC’s timetable had envisaged a common currency like the Euro by 2012, which is work still in progress. While these expectations haven’t entirely been
achieved, Stefan and Moritz (2011), in their report on EAC Integration note that “a customs union and a common market could lead to an increase in trade between the members of the regional organisation”.

However, they also caution that the “realisation of a common market requires all member states and the populace to be prepared to accept a not insignificant risk. For regional integration not only creates trade, but also changes the overall economic structure. This entails some uncertainties, which in some cases may have negative consequences.”

In spite of the challenges, considerable steps have been taken and significant progress made. Inter-EAC trade has grown and there is now an East African Single Tourism Visa for foreign visitors. The East African Identity Card allows citizens to move freely across theregion without a passport. In Rwanda, it takes only two working days to acquire investment land in the capital Kigali.

So, how does regionalism benefit you? Imagine if the established clients of your product or service were a reliable 0.154% of the TFTA populace, this would translate to a whopping one million customers. Think about what your business could do with that sort of customer base.

With the region moving towards a MonetaryUnion and ultimately a Political Federation, the least one would expect is opposition from citizens who are ill-informed, and therefore, unwilling to support the integration agenda and embrace the changes that will come with the new monetary and political systems.

Since the region is home to a cocktail of cultures and ethnic groups, member states should ensure unity and strengthen the capacity to accommodate one another, including the diversity of opinion at the national and regional levels.

A well-informed citizenry will be the best ambassadors for regional integration, should be about the people and for the people, and not just for the leaders.
7. Greater autonomy in store for Kenya’s farmers

By GEOFFREY KAMADI

Geoffrey Kamadi was awarded a Zimeo “Excellence in Media” Award for this article, First published in the African Business Magazine in July 2015.

New initiatives that give farmers access to warehouse facilities are rebalancing negotiating power back in their favour.

Catherine Maina is a typical small-scale farmer in Kenya in many ways. A mother of two, Maina cultivates maize on her two-acre plot of land. Some of her produce is consumed domestically while the rest is sold in the nearby village of Wamuini, in Trans Nzoia County, around 400km northwest of Nairobi.

The margins are low, though Maina gets by. But until recently, one shortcoming that cut even further into her modest profits came down to the simple problem of storage. Like many other small-scale farmers, Maina’s lack of facilities to store her produce meant that she was often forced to sell her maize at throwaway prices or risk losing it completely.

However, Maina is now part of a growing band of smallholder farmers using a new grain trading system that allows them access to storage facilities. This way, they do not have to sell immediately after harvest, which means that they can potentially hold out for better prices.

“I now harvest nearly twice what I used to get from my two-acre plot,” says Maina, who now makes a profit of around 50,000 shillings ($500) each season. Previously around 900kg of her harvest would go to waste but now that figure is at just 45kg.

How it works

The so-called Warehouse Receipt System (WRS) that Maina uses relies on the cooperation between warehouse operators, a financial institution and a regulator. In Maina’s case, Chase Bank Kenya has partnered with the Eastern Africa Grain Council (EAGC), which regulates and promotes the system.

The initiative works by allowing farmers to store their goods but also get immediate access to money even as they await a buyer for the produce. The way it works is that farmers take their grain to a village aggregation centre, where it is tested for moisture content before grading and transportation to the warehouse. The farmer is issued with a receipt.

This document can then be used to access short-term credit from the bank, which can advance a loan of up to 65% of the prevailing market value of the stored grain to the farmer. Once a buyer for the stored produce is found, the purchase is made through the bank, which hands this payment on to the farmer, minus the loan, a 1% monthly interest on the loan and the warehouse operator’s fees.

Chase Bank began financing farmers under this system in January 2014. And since then, the programme has grown rapidly, with the bank approving 140m shillings ($1.5m) of warehouse receipt loans from August to October 2014.

If the price falls by 20% below the receipt value, we trigger a sale since it will eat into the farmer’s remaining 35% margin and on the loan that had been advanced,” says Ndonga.

“This is almost twice what we did over the entire previous season. And we expect to do more before the season peaks and dips again,” says Samuel Ndonga, Senior Agribusiness Manager at Chase Bank.

Part of WRS includes help and training from the warehouses. “We conduct soil analysis for farmers and train them on good agricultural practices,” says Isaac Chege Njuguna, Managing Director of Nafics Grain Trading Warehouse.

The hope is that being able to store produce gives farmers greater autonomy in deciding when, and for how much, to sell. This often means that farmers can get higher prices, but the reverse can also be the case. However, the bank has mechanisms to protect itself.

“If the price falls by 20% below the receipt value, we trigger a sale since it will eat into the farmer’s remaining 35% margin and on the loan that had been advanced,” says Ndonga.
Growing pains

Many farmers are now benefiting from the WRS. Elizabeth Sang, a maize farmer from Wareng sub-county in Kenya’s Rift Valley, is one of the over 5,000 farmers that uses the Nafics Grain Trading Warehouse. She says solving the problem of storage has had huge effects: “Now I have enough time to budget for the maize stored in the warehouse and buy inputs at the right time, something which I never used to do.”

We have a special programme that works to organise small-scale farmers into farmer organisations or groups, so that they can benefit from the services of Chase Bank and EAGC,” says Sylvia Mwichuli, the Director of Communications at AGRA.

The system has also helped her make more money. In one harvest, she recalls, the prevailing market price for maize at the time of storage was 2,700 shillings ($28) per bag. But after waiting four months, the price had risen to 3,300 shillings ($35).

But Sang is not entirely typical of most farmers in the region. Last season, she stored 424 bags of maize, which is several times more than most smallholders would harvest.

This is significant because warehouse systems typically require a minimum amount of grain to be eligible, usually 10 metric tonnes for maize or wheat and five metric tonnes for legumes and pulses – a threshold that cannot be met by the vast majority of farmers.

This is a real source of criticism of WRS, and it is why some smallholders have had to band together to take advantage of the initiative. Wamuini Soko Huru in Trans Nzoia County, for example, now has around 400 members, including Catherine Maina, each of whom deposits about 20-40 bags of maize each season.

Creating this group has enabled the farmers to access WRS and also helped farmers find buyers. For instance, the group sold 1,310 bags of maize to the World Food Programme (WFP) and another 80 bags to Kitale Industries last season.

Some NGOs such as the Alliance for a Green Revolution in Africa (AGRA) are now trying to help small-scale farmers mobilise in these ways too.

“We have a special programme that works to organise small-scale farmers into farmer organisations or groups, so that they can benefit from the services of Chase Bank and EAGC,” says Sylvia Mwichuli, the Director of Communications at AGRA.

More say is being put back in the hands of smallholders, and with this simple but transformative innovation, Maina, like many others, feels that she is becoming a new type of farmer.
In the next issue,

ATPAF-ESA Volume V carries the title, “Towards Creating an Enabling Environment for Grain Trade in Africa: Technology, Investment, Information, Policy and Services (T.I.I.P.S.)” The Bulletin shares insights into the latest developments, success stories and challenges in grain trade in Africa, and key policy interventions that are required going forward in order to create an enabling environment for grain trade on the continent. The Bulletin presents some of the key deliberations and recommendations from the 6th African Grain Trade Summit, which carried the same title and was held in Kigali, Rwanda from 1st to 3rd October 2015.

ATPAF-ESA IN 2016

2016 promises to be another busy year for ATPAF-ESA as the Forum continues to advocate for an enabling environment to support agricultural trade in the region. The line-up of initiatives includes:

- Identification of areas of priorities for Research for Evidence Based Policy Advocacy in ESA
- Collaboration with United Nation's Food and Agriculture Organisation (FAO) to conduct studies and policy dialogues on food security in Eastern and Southern Africa in the context of the Tripartite Free Trade Area agreement.
- Launching of a study on contribution of pulses to trade and food security in ESA
- Conducting post-budget synopsis forums in EAC Partner States
- Supporting country-level working groups and action groups anchored under ATPAF-ESA in their policy dialogue initiatives
- Develop and conduct training courses on agricultural trade policy to industry stakeholders in the region

Call for Contributions for the ATPAF-ESA Bulletin

We invite industry practitioners and agricultural trade experts to contribute to the ATPAF-ESA Bulletin series with articles relevant to agricultural trade and trade policy in Eastern and Southern Africa. Contributors will benefit from wide exposure of their work and publications through the ATPAF-ESA readership which extends across Eastern and Southern Africa. Address your articles or enquiries to:

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