THE ROLE OF TRADE FACILITATION AND PHYSICAL MARKET ACCESS IN PROMOTING TRADE IN FOOD AND AGRICULTURE

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This think piece examines the existing challenges in trade in food and agriculture in East Africa, both from an intra-regional and global trade perspective. Through examples we highlight how issues with production, transportation, standards and other non-tariff barriers all work together to make products expensive for consumers in the region as well as to make exports less competitive. Importantly, the presence of these barriers also perpetuates a cycle of low farm productivity and incomes as they curtail incentives on the farm for investments in better yields and post-harvest quality improvements. To eliminate these constraints, TMEA and other agencies have been working on several country-specific measures. However, TMEA believes that ultimately it is a united East Africa with a large common import and export area which would lead to flourishing trade, strong investments and less poverty in the region.
INTRODUCTION

Many developing countries have a significant population base earning their livelihood from agriculture. This dependence exposes them to several challenges that abound in the sector—ranging from lack of access to quality agricultural inputs, constraints that limit farm productivity, and finally poor access for farmers to national, regional and global markets for sale of produce. This think piece highlights challenges relating to providing market access for farm produce and the impact of such challenges on agricultural trade. At the end of the piece the role of trade facilitation and physical market access measures on improving market access is examined.

Case studies from the East African Community (EAC) are highlighted to illustrate issues. TradeMark East Africa (TMEA) has been working in this region since 2010 with the aim of growing prosperity through trade. TMEA believes that enhanced trade contributes to economic growth, a reduction in poverty, and subsequently increased prosperity. To enhance trade TMEA has supported a number of programs and projects across the value chain of trade in the region. TMEA has worked with stakeholders to improve port productivity at Mombasa and Dar, reduce transportation costs by tackling non-tariff barriers & harmonization of policies and regulations, reduce waiting time at borders by supporting development of ‘one-stop border posts’, improve quality through a focus on standards and SPS measures and finally bringing stakeholders together in various national and regional forums in East Africa including providing support to the EAC secretariat in Arusha. This think piece reflects the understanding gained from work carried out by TMEA and its partners in the region.
Sub-Saharan Africa was long the poster child of food insecurity, with images of hunger being beamed across televisions across the world. In the past decade, the East African countries in particular have made great strides in tackling the problems of food insecurity through efforts to increase both acreage and yields. However, as the accompanying map on food insecurity shows, the region still suffers from stress. The Famine Early Warning Systems Network, which has produced the map, classifies Kenya, based on its underlying data, as being in a crisis situation and Tanzania & Burundi as being stressed. Only Uganda and Rwanda are said to have a minimal level of crisis.

One of the reasons for the above is that despite the rapid strides made in agriculture, agricultural growth is still not sufficient to meet the demands of the rapidly growing economies in the region. As can be seen from the graph on GDP, countries in this region have grown rapidly in the past decade. Kenya, the largest economy in the EAC region has more than tripled its GDP in the last decade alone. The EAC bloc has become one of the fastest growing regions in the world.

One of the consequences of this rapid growth has been a change in the food preferences of the population owing to changed income patterns. Income growth has led to significantly higher demand for wheat-based products, sugar, vegetable oils, dairy and poultry products, and meat. Farmers in the region have not been able to keep up with this rapidly growing demand, leading to ever increasing imports of food products to the region. The accompanying graphs highlight the statistics on importing a basket of maize, wheat, sugar and oil. As can be seen from the graph:
There is a need for significant import of these basic commodities in the region as agriculture has not been able to keep pace with the demand.

Import of wheat, vegetable oil and sugar have soared while maize imports have even come down in some countries owing to increased production. However in Kenya, where it is the tradition staple, maize imports have soared.

In addition to the imports of agricultural commodities, EAC is also a hub of agricultural exports, primarily led by Kenya. As can be seen from the graph on agricultural exports, Kenya is a leader, with exports going well above USD 2 billion. Both Tanzania and Uganda export nearly USD 1 billion of agricultural products, whilst exports from Rwanda are just over USD 100 million.

In this piece we look at the constraints on both imports and exports over two distinct strands of trade in East Africa:

1. Intra-regional trade in staples, livestock and livestock products, carried out through both formal and informal channels
2. Global trade in agricultural products focusing largely on:
   a. Export of cash crops like coffee, tea, cotton, tobacco and horticulture products
   b. Import of staples such as maize and wheat as well as vegetable oil
Constraints will be primarily illustrated through examples – trade in maize would be used to highlight issues in intra-regional trade, while import of vegetable oil and the export of coffee would be used as examples to highlight issues with global trade. The effects of such constraints on trade would also be highlighted alongside.

### CONSTRAINTS THAT HINDER MOVEMENT OF MAIZE IN INTRA-REGIONAL TRADE AND ITS EFFECTS

Maize is the primary staple in Kenya and Tanzania, and is growing in importance in the diet of Rwanda. The accompanying chart on maize import and export shows that except for Uganda, which is a major exporter of maize regionally, every other country is a net importer\(^1\). The extent of deficit compared to production in the region is significant and therefore trade in maize in the region is carried out not just by traders but also by food reserve agencies as well as the World Food Program.

Stakeholder analysis conducted by TMEA in its projects show that a number of constraints including lack of appropriate equipment for farming, poor harvesting and post-harvest processes, low skill levels of farmers and limited use of proper inputs all contribute to lower yields of maize than might have been possible. A USAID estimate puts the regional average yield of maize in East Africa at only 30% of the global average\(^2\). One of the factors which work to keep the yields low is the poor state of trade facilitation and market access for the farmers. Poor logistics infrastructure creates an anomaly where the farm gate prices of maize are low even when consumer prices are high, thus not providing enough incentives to farmers to invest in inputs, equipment and skills upgrade to increase yields.

The issues with trade in maize are many. Poor state of feeder roads, non-presence of appropriate storage facilities and lack of access to credit all prevent farmers from holding and reaching their produce directly to market. This significantly impacts their ability for better prices as they are forced to sell in the ‘season’ when prices are low.

The harvest is then consolidated by traders and their agents usually as a bagged commodity to be sold either in the domestic market or exported intra-regionally. The traders also organize the transport required to reach the markets and the produce usually travels as a bagged commodity for easy loading and unloading. In many cases the traders

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\(^1\) Tanzania keeps fluctuating between a net exporter and importer based on the quantity harvested. 
also carry out value addition in the form of milling the corn to make maize meal. Most of Rwanda’s informal trade with DRC for example is in the form of coarse maize meal. Maize is also procured by organized roller mills for distribution in the region, with many mills relying on imported maize for a significant proportion of their output.

The EAC allows for duty-free import of maize from partner countries. However, duty has to be paid on import of maize from other nations outside EAC, essentially a protectionist measure for local farmers, which increases the price of maize for end consumers. Countries in the EAC usually ban exports of maize in the case of a lean crop thereby increasing the prices for customers due to importation of maize from international markets (unless EAC lifts its import duty on an ad hoc basis for the duration of the crisis).3

SPS standards and its implementation also create its own set of costs on the chain. SPS standards in EAC are stringent and therefore impact the intra-regional trade conducted through formal channels. Given poor post-harvest practices as well as the use of non-specialized trucks for maize transport in the region, maintaining required moisture content as required by the standards enforced is difficult. Therefore one sees trucks carrying maize for export driving to the border and then unloading to allow for maize bags to be transported across the border through the informal trade channel, as SPS standards are not enforced on informal imports. Such informally imported maize is then consolidated on the other side of the border and is then moved by another set of trucks to its intended destination, all leading to unnecessary costs. Therefore rather than protecting customers the existing standards act more towards increasing the cost of trade.

Additionally the lack of implementation of the EAC grain standards and the lack of enforcement of these standards across borders and by regional buyers such as processors leads to limited price difference between grades, so there is little impetus for farmers to invest.

Finally modern storage facilities near the farm are in short supply. Also such storage facilities are expensive and are unlikely to be used unless a functional warehousing receipt system is put in place that allows farmers/traders to safely store their produce for sale later.

Together these constraints have led to poor price realization for farmers, low crop productivity and higher end prices for the customers as a recurring food security problem.

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3 Interviews with stakeholders indicates that this stance may be changing as member countries of the EAC become more cognizant of the impacts of such change.
The constraints that hinder import of agricultural products are similar to those that impact most other commodities and containers being imported in the region. To highlight some of the important issues and their impact on global import of agricultural products to the region palm oil imports is used as an example.

Palm oil dominates the import of vegetable oil to the EAC. As highlighted in a TMEA study on freight logistics, the import chain starts with palm oil refiners getting together in groups to charter a tanker vessel from Asia to carry palm oil to either the ports of Mombasa or Dar es Salaam. Port capacity issues and custom clearance procedures cause delays and costs for such arrivals. While EAC rules allow for duty free import of crude palm oil, clearance times are still delayed owing to documentation issues. Also, post clearance of cargo, there are issues with the cost of transport. The number of third party transporters which can provide reliable service is limited, as there are technical challenges of maintaining palm oil at a certain temperature else it may deteriorate. This limits choice for oil refiners to work with either their own fleets or those owned by a limited number of large transporters. Movement along the northern corridor to Uganda is also subjected to other non-tariff barriers. These are mitigated to an extent on the central corridor due to the presence of refiners at Dar itself which limits the distance required to transport.

One estimate of the level of inefficiency in the import chain comes from an oil refiner who estimates that it costs nearly double the amount to move palm oil from the port inland to his factory as compared to moving it from the producing country (largely Malaysia) to the port of Mombasa! This, coupled with high costs for electricity and other inputs, mean that the refining industry in EAC is not cost competitive and survives only on the back of a 25% import duty levied on finished vegetable oil products, essentially resulting in higher prices for customers than necessary.

Coffee exports are used an example to illustrate the challenges of agricultural exports from the region. Coffee is the largest ‘traditional’ export from the region with export earnings just below USD 1 billion. Due to stringent requirements for exports the sector is relatively well organized, but issues still persist.

Similar to most agricultural exports from the region there are significant challenges faced at the production level for coffee. Stakeholder interactions conducted by TMEA indicate that challenges relate to shortage of new coffee seedlings, insufficient use of appropriate fertilizers, age of existing coffee trees (many over 30 years old), significant price fluctuations etc. all of which have led to low productivity levels in the sector. In addition to issues with planting techniques, coffee also gets impacted by lower standards at coffee
washing stations. This lack of quality directly affects access to better markets impacting the trade revenue of coffee.

From a logistics standpoint the issues start with lack of feeder roads and reliable means of transport. This means that coffee exporters have to rely on cooperatives or traders/agents to aggregate produce and reach it to the coffee washing stations or for semi-washing. Once processed, coffee is moved to warehouses near major cities to take advantage of returning loads, all leading to double handling. Non placement of empty containers by the shipping lines, especially in the landlocked countries (primarily due to lack of sufficient exports from these countries), as well as expensive financing means that coffee exports have to often negotiate freight on truck (FOT) contracts with the international buyers whereby they lose contact of the export chain the moment coffee is loaded on the trucks. This reduces the potential price realization from exports. Despite the exports receiving preferential pricing from truck owners due to providing backhaul the transport cost of coffee still remains one of the highest in the world due to:

- Congestion on the roads and borders
- Non-tariff barriers along the way including enforcement of axle load restrictions
- Non availability of a defined regular service to the ports which matches ship arrival
  means that either the coffee has an uncertain wait in country or at the port, thereby paying additional storage costs.

Additionally issues around issuance of a regional certificate of origin remain a significant barrier to better price realization from exports. Operationalization of an EAC wide certification and removal of transport related regulations would have allowed for regional consolidation of coffee, thereby allowing for better contract negotiation power for such regional consolidators.
POLICY RECOMMENDATIONS TO IMPROVE THE SITUATION

For East African Community to expand its economy and reduce poverty, it needs to improve its competitiveness in the global markets. However this will not materialize without an adequate response to removing constraints on trade facilitation and market access to support the agriculture sector. In a recent study, estimates for Kenya, Tanzania and Uganda placed the average cost of trade logistics services at the equivalent of a tax of between 25 and 40% on value added. It has been posited that improving logistics performance and facilitating trade can increase trade impacts of lowering remaining border barriers by a factor of two or more.

As can be seen from the examples above there are several reasons why trading of agricultural commodities within the region and globally is expensive. The existence of these constraints on competitiveness places a significant burden on the economies of the region as they prevent investment in farms due to poor price realization by the farmers as well as make products expensive for buyers, either within the EAC or outside.

To address these concerns TMEA and its partners, other agencies and governments have been working on a number of trade facilitation measures. Efforts made by TMEA in this regard in particular ranges from:

- Supporting development of new infrastructure as well as maintenance of existing infrastructure including at ports, roads and borders
- Supporting development of policies around standards and supporting the harmonization of standards
- Supporting skill up gradation and technology support to customs and other relevant border officials as well as to industry players including freight forwarders and truck drivers
- Supporting identification and elimination of non-tariff barriers along the trade corridors
- Supporting improvements in export capability of EAC exporters, particularly in the agriculture sector
- Supporting institutional and advocacy support to increase transparency in trade processes

The combined effort of TMEA and other agencies have all led to a significant improvement on the rankings on the Logistics Performance Index for countries in the region. As can be seen from the table below Kenya, Rwanda and Burundi have all shown an increase in ranking of nearly 50 places between 2012 and 2014. Tanzania has shown a decline in its ranking but the same is largely due to an increase in congestion at Dar port which has increased time and costs of cargo clearances.
Table: Change in ranking on the Logistics Performance Index of the World Bank

<table>
<thead>
<tr>
<th>Country</th>
<th>LPI Ranking 2014</th>
<th>LPI Ranking 2012</th>
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<tbody>
<tr>
<td>Kenya</td>
<td>74</td>
<td>122</td>
</tr>
<tr>
<td>Rwanda</td>
<td>80</td>
<td>139</td>
</tr>
<tr>
<td>Burundi</td>
<td>107</td>
<td>155</td>
</tr>
<tr>
<td>Tanzania</td>
<td>138</td>
<td>88</td>
</tr>
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However despite these improvements significant challenges remain as logistics performance still remains significantly below potential. The implementation of a single customs territory protocol is a significant development towards looking at trade facilitation issues in EAC as a bloc. It is important because unless EAC countries work together as a bloc to increase the size of the export and import areas they would not have the bargaining power with suppliers and buyers to exploit the opportunity on increased agricultural trade at better terms. It is with this objective that TMEA actively engages with the EAC secretariat as it is our core belief that a united East Africa would lead to flourishing trade, strong investments and less poverty in the region.

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4 Data on Uganda is not available