

ENABLING ENVIRONMENTS
FOR AGRIBUSINESS
AND AGRO-INDUSTRY DEVELOPMENT
IN AFRICA

Proceedings of a FAO Workshop



ENABLING ENVIRONMENTS
FOR AGRIBUSINESS
AND AGRO-INDUSTRY DEVELOPMENT
IN AFRICA

**Proceedings of a FAO Workshop
Accra, Ghana
8-10 October 2007**

Edited by:

Alexandra Röttger
Agribusiness Economist

Carlos A. Da Silva
Agribusiness Economist

**Agricultural Management, Marketing and Finance Service (AGSF)
Rural Infrastructure and Agro-Industries Division**

**FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
Rome, 2008**

The designations employed and the presentation of material in this information product do not imply the expression of any opinion whatsoever on the part of the Food and Agriculture Organization of the United Nations (FAO) concerning the legal or development status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries. The mention of specific companies or products of manufacturers, whether or not these have been patented, does not imply that these have been endorsed or recommended by FAO in preference to others of a similar nature that are not mentioned. The views expressed in this information product are those of the author(s) and do not necessarily reflect the views of FAO.

All rights reserved. Reproduction and dissemination of material in this information product for educational or other non-commercial purposes are authorized without any prior written permission from the copyright holders provided the source is fully acknowledged. Reproduction of material in this information product for resale or other commercial purposes is prohibited without written permission of the copyright holders. Applications for such permission should be addressed to:

Chief
Electronic Publishing Policy and Support Branch
Communication Division
FAO
Viale delle Terme di Caracalla, 00153 Rome, Italy
or by e-mail to:
copyright@fao.org

Preface

After many years of near stagnation, Africa is beginning to experience an era of renewed economic growth. In contrast with the general situation in the 1990s, conflicts have mostly subsided, economic performance has improved and some countries have emerged as fast growing economies. In recent years, 24 African countries have had average growth rates of above 5 percent. Growth in sub-Saharan Africa (SSA), which averaged 2.4 percent in the 1990s, rose increasingly over the last decade, and improved macroeconomic performance has been observed with respect to growth rates, exports, imports, and value adding industries.

Yet, despite these recent positive trends, the African continent still faces many development challenges. Notwithstanding the fact that poverty has diminished in some countries, more than 40 percent of the population of SSA still lives with less than a dollar a day. The Millennium Development Goal (MDG) to reduce the number of poor by 50 percent for the year 2015 is not likely to be achieved. Deficiencies in infrastructure persist, governance problems remain serious in a number of countries and as a consequence, private investors, both domestic and foreign, by and large remain reluctant to invest. This is particularly true in sectors where the risk / return ratios are not as favourable as those in such areas as natural resources or services.

Africa continues to trail most developing regions in indicators of business climates such as starting a business, registering property, trading across borders and accessing credit. Other fundamental obstacles to private sector development remain: the weak market institutions, the low technical capacity of firms, the low skills of management and workers and the size of markets. The challenge ahead is the promotion of inclusive and equitable economic growth and within this context, agro-industries and agribusiness have an important role to play in Africa, as countries in the region are predominantly agricultural-based economies.

The existence of a proper business climate, or an enabling environment where enterprises can initiate and prosper, is an essential pre-requisite for economic development. As revealed by the growing amount of evidence on cross-country assessments of business climate, proper policies, institutions and services have enabled numerous countries to successfully promote investments, attract capital and engender economic growth. Yet, even though the essential elements that constitute an enabling environment for business investments are cross-cutting, non-sector specific, there are particularities in certain economic sectors that make it desirable to differentiate their nature and extent. Agribusiness and agro-industrial sectors, in particular, have not had their peculiar characteristics sufficiently examined in traditional assessments of business climates.

In order to address this need, the Rural Infrastructure and Agro-Industries Division (AGS) of the Food and Agriculture Organization of the United Nations (FAO) conducted a series of cross-country assessments of enabling environments for agribusiness and agro-industry development in four regions of the world, namely Eastern Europe, Latin America, Asia and Africa. The objectives were to identify, characterize and assess the set of policies, institutions and support services that form the “agro-based” business climate in selected countries. This was carried out to identify lessons and best practices from induced changes in policies, institutions and support services that have led to increased investments and improved competitive performance in specific agribusiness and agro-industry subsectors.

This document presents a synthesis of the work that took place during the African session of the series of international workshops. The event was held in Accra, Ghana, from October 8 to 10, 2007, under the auspices of AGS, FAO, Rome and FAO's Regional Office for Africa (RAP).

It is hoped that the results of the presentations and debates that took place during the three day event can serve as a reference for activities in support of assessments and reforms of enabling environments, as a way to promote investments in and favour the competitiveness of agribusiness and agro-industrial enterprises.

Contents

PREFACE	iii
ACKNOWLEDGEMENTS	1
ACRONYMS	2
SYNTHESIS REPORT OF THE WORKSHOP	5
Workshop summary	5
Plenary country papers on enabling environments for agribusiness and agro-industry development	7
Plenary papers on special issues in African agribusiness and agro-industry	13
Round table discussions	25
FULL COUNTRY PAPERS	30
The Gambia	30
Ghana	46
Kenya	76
Mozambique	106
The United Republic of Tanzania	118
ANNEX I: LIST OF PARTICIPANTS	145
ANNEX II: WORKSHOP PROGRAMME	147

List of figures

Figure 1. Priority rankings: Legal and regulatory frameworks	28
Figure 2. Priority rankings: Public-private cooperation and agro-specific issues	28
Figure 3. Production indices of food and beverage industries, 1995 – 2006 (1997=100)	63
Figure 4. Total volume of non-bank financial institutions and rural/ community bank credit allocations, 2001 – 2006	66
Figure 5. Kenya’s agro-industrial structure	77
Figure 6. The most problematic factors for doing business in Kenya	85
Figure 7. Corruption Perception Index (CPI), 2007	86
Figure 8. Bribe requests by public agency or service, as a percentage of firms that used the service	86
Figure 9. Ranking Kenyan transport constraint perception against other countries	88
Figure A. Rail transportation	103

List of tables

Table 1: Average applied tariff rates by industry (percent)	36
Table 2: Selected Competitiveness Indicators - The Gambia & other African countries, 2006	40
Table 3: The structure of sectoral lending (Percent of total new loans)	41
Table 4: Percentage distribution of respondents in national survey who sell farm produce through the open market	50
Table 5: Top ten non-traditional exports, 2005 – 2006	61
Table 6: Top ten non-traditional agricultural exports, 2005 - 2006	61
Table 7: Major sources of micro-loans in Ghana	67
Table 8: Comparison of Kenya’s financial system in the region	90
Table A: Comparison of electricity tariff for manufacturing industries (Unit: US\$/kWh or user)	101
Table B: Electricity Generated in 2003 in Selected African Countries (unit: Million KWh)	101
Table C: Typical examples of processing scale in MSE ~ Jua Kali Processing Units in 2005	101
Table D: Trends in agro-industrial production index (1996 = 100)	102
Table E: Status of management in large-scale manufacturers	102
Table F: Number of vehicles registered	103
Table G: Kenya railway line system	103
Table H: Volume of freight handled by KPA 2001-05	104
Table I: Agro-Machinery industry in Kenya economic structure	104
Table J: Imports of selected agro-machinery	105

Table K: Import of food processing machines and facilities (2000 – 2005), (Unit : Ksh mil [US\$1=Ksh67])	105
Table 9: Agro-industries and institutional arrangements with smallholders	108
Table 10: Sources of financing by type of agro-industry	109
Table AA: Tax regimes and other measures to promote agriculture in The United Republic of Tanzania	141

List of boxes

Box 1. Over valued shilling impacts on the Tea industry	79
Box 2. Infrastrucutre	88
Box 3. Security concerns in Kenya	91
Box 4. Limited direct government intervention in horticultural markets	92
Box 5. Industrial and domestic sugar import licensing	94
Box 6. Reducing cotton farming costs through streamlined regulations	94

Acknowledgements

The editors wish to acknowledge the support of FAO's Regional Office for Africa (RAP), which managed the local arrangements and the logistics of the workshop. The contributions of Mr. Robert van Otterdijk, Agro-Industries Officer, AGS, FAO, Rome (formerly at RAP), in planning and conducting the workshop, are greatly appreciated. Also thanks go to Mr. Josef Kienzle, Agro-Industries Officer, AGS, FAO, Rome, for his collaboration in the organization and his participation in the event. Further we would also like to thank Mr. Michael Boateng, from Business Strategies and Solutions, Ghana, for his role as rapporteur of the workshop, and Larissa D'Aquilio for the desktop publishing

Acronyms

AGS	Rural Infrastructure and Agro-Industries Division (FAO)
AGSF	Agricultural Management, Marketing and Finance Service (AGS,FAO)
AGSSIP	Agricultural Services Subsector Investment Project (Ghana)
ASP	Agricultural Service Provider
ASDP	Agricultural Sector Development Programme (The United Republic of Tanzania)
ASDS	Agricultural Sector Development Strategy (The United Republic of Tanzania)
BoT	Bank of Tanzania
BRELA	Business Registration and Licensing Agency (The United Republic of Tanzania)
CAMARTEC	Centre for Agricultural Mechanization and Rural Technology (The United Republic of Tanzania)
CAPI	Cabinet of Support to Small Investments (Mozambique)
CBK	Central Bank of Kenya
CBO	Community-Based Organization
cedi	Ghanaian currency
CET	Common External Tariff (ECOWAS)
CFA	Currency: Franc used in 12 West African countries, including Guinea Bissau and Equatorial Guinea
COMESA	Common Market for Eastern and Southern Africa
CPMS	Cooperative Produce Marketing Societies (The Gambia)
DB	Doing Business indicators (World Bank)
DFID	Department For International Development (United Kingdom)
DoSA	Department of State for Agriculture (The Gambia)
DoSFEA	Department of State for Finance and Economic Affairs (The Gambia)
DoSTIE	Department of State for Trade Industry and Employment (The Gambia)
EAC	East African Community
ECOWAS	Economic Community of West African States
EPZ	Export Processing Zone
EPZA	Export Processing Zone Authority (Kenya)
ERS	Economic Recovery Strategy (Kenya)
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FCC	Fair Competition Commission (The United Republic of Tanzania)
FCT	Fair Competition Tribunal (The United Republic of Tanzania)
FDI	Foreign Direct Investment
GAMTEL	Gambia Telecommunications Company Limited
GDP	Gross Domestic Product
GEOC	Ghana Export Promotion Council
GGC	Gambia Groundnut Corporation
GIPFZA	Gambia Investment Promotion Free Zones Act
GPA	Gambia Port Authority
GRA	Gambia Revenue Authority
HACCP	Hazard Analysis and Critical Control Point
HEII	Horticultural Export Industry Initiative (Ghana)
IEF	Index of Economic Freedom (Heritage Foundation)
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation (World Bank)
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IPC	Investment Promotion Centre (Kenya)
IP-ERS	Investment Programme for Economic Recovery Strategy (Kenya)

ISIC	International Standard Industrial Classification (United Nations)
ISO	International Organization for Standardization
ISP	Internet Service Provider
IT	Information Technology
ITC	Information and Communications Technology
KANU	Kenya African National Union
KEPSA	Kenya Private Sector Alliance
KPA	Kenya Ports Authority
KSh	Currency : Kenya Shilling
LGA	Local Government Authority
MAFC	Ministry of Agriculture Food Security and Cooperatives (The United Republic of Tanzania)
MCA	Millennium Challenge Account (United States of America)
MDG	Millennium Development Goal
MERCOSUR	Southern Common Market
MITM	Ministry of Industry Trade and Marketing (The United Republic of Tanzania)
MSE	Micro and Small Enterprise
MT	Metric Tonne
MW	Megawatt
NAFTA	North American Free Trade Agreement
NARI	National Agricultural Research Institute (The Gambia)
NAWFC	National Water and Electricity Company (The Gambia)
NBFI	Non-Bank Financial Institution
NES	National Export Strategy (Kenya)
NGO	Non-Governmental Organization
NIC	National Investment Commission (Liberia)
NPL	Non-Performing Loan
NTA	National Training Authority (The Gambia)
NTP	National Trade Policy (The United Republic of Tanzania)
OECD	Organisation for Economic Co-operation and Development
PPP	Public-Private Partnership
PRC	People's Republic of China
PRGF	Poverty Reduction and Growth Facility (IMF)
PRSP	Poverty Reduction Strategy Paper (The Gambia)
PSDS	Private Sector Development Strategy (Ghana & Kenya)
PSI	Pre-Shipment Inspection
RAP	Regional office for Africa (FAO)
R & D	Research and Development
SACCO	Savings and Credit Cooperative
SADC	Southern African Development Community
SAP	Structural Adjustment Programme (IMF & World Bank)
SBP	Single Business Permit (DFID)
SCM	Supply Chain Management
SIC	Special Investment Certificate scheme (The Gambia)
SISO	Sisal Smallholder and Outgrower Scheme (The United Republic of Tanzania)
SME	Small and Medium Enterprise
SPS	Sanitary and Phytosanitary measure
SSA	sub-Saharan Africa
TAMS	Tanzania Agricultural Mechanization Strategy
TBS	Tanzania Bureau of Standards
TEU	Twenty-foot container equivalent
TIC	Tanzania Investment Centre
TIPCEE	Trade and Investment Programme for Competitive Export Economy (USAID)
TSh	Currency : Tanzanian shilling

UNECA	United Nations Economic Commission for Africa
UNIDO	United Nations Industrial Development Organization
USAID	United States Agency for International Development
VAT	Value Added Tax
VCA	Value Chain Analysis
WB	World Bank
WEF	World Economic Forum
WTO	World Trade Organization

Synthesis report of the workshop

Workshop summary

The event consisted of three plenary sessions, one round table discussion and a working group break-out session. Following the opening welcome by the organizers, representatives of the Ghanaian government and FAO local hosts, a presentation summarizing the results from the previous FAO workshops in Eastern Europe and Latin America was made. This was done in order to inform the participants about the purposes of this current series of meetings and share information on the experiences and lessons learned in other regions of the world.

A plenary session followed, consisting of individual country presentations on Ghana, the United Republic of Tanzania and Kenya. Two additional country studies were prepared and made available to the participants, focusing respectively on The Gambia and Mozambique. Yet, they could not be presented in the event, as the authors faced last minute, unexpected problems that precluded their travel to Accra, Ghana.

The objective of the ensuing session, of roundtable discussions, was to exchange information about the current situation in African countries with regard to major issues and constraints affecting the assessment and creation of enabling environments for agribusiness and agro-industry development. Themes discussed included legal and regulatory frameworks, public-private cooperation and agro-industry specific promoters of development.

The third plenary session offered workshop participants an opportunity to present and discuss selected themes and cases regarding the development of African agro-industries. Presentations and discussions were held on the topics of supply chain management (SCM) in the brewing industry, agricultural mechanization strategies, food safety issues, trade protection advocacy, value chain analysis (VCA), tree crop development and the initiation of policy changes to promote agribusiness investments.

In the final sessions of the event, working groups were formed to propose priority areas for policy action regarding the promotion of enabling environments for agribusiness and agro-industries development in Africa. The outcomes of the discussions were debated and consolidated in a closing plenary.

The country presentations and papers showed that although there is diversity in the African economies as regards to opportunities and constraints to the development of the agrifood sector, the main findings and recommendations stemming from the analyses were mostly similar. Success factors identified for creating an enabling environment for agribusiness and agro-industries development included a variety of factors: macroeconomic and political stability, efficient land markets and tenure systems, consistent open trade policies, rural and agricultural financial service delivery, availability of human resources, well functioning public-private partnerships (PPPs), good governance, and the availability of improved technologies.

The analysis of the Kenyan case also mentioned, as success factors, the importance of export promotion policies, infrastructure facilities and the existence of large markets. The need to address the serious problems caused by the multiplicity of taxes and by corruption was pointed out. Infrastructure and financing were also highlighted, in the case of The Gambia, as the most critical bottlenecks for increased investments in agribusiness and agro-industries in the country.

For the United Republic of Tanzania, public governance, laws and regulations, human resource development, exchange rate policies and competition policies were mentioned as the main elements of an enabling environment for agro-based investments. Critical success factors were establishing financial services, including saving and credit unions, PPPs, ensuring technology upgrading and competition. Governance issues, both at the corporate and the public sector level, were pointed out as key elements in need of reforms, in the case of Mozambique. As for Ghana, the positive results of government induced reforms that paved the way to economic liberalization and market access were highlighted. The country case also called for attention on the importance of advocacy for enabling environment reforms, plus the important role of a well functioning financing system that is also present in rural communities.

Round table discussions were held on legal and regulatory frameworks, institutions and support services and PPPs. The groups concluded that key elements for improving the enabling environment for agro-industry development include:

- capacity building for pressure (advocacy) groups;
- incentive schemes to attract highly qualified labour;
- improving farmers' organizations;
- provide one-stop shops for investors;
- ensure political and macroeconomic stability;
- work towards regional integration with respect to quality standards;
- create tax incentives for start-ups;
- establish land banks (databases) for better access to natural resources.

Specific policy action areas included:

- improving storage facilities (including cold chains);
- improving contract enforcement;
- streamlining land access procedures and increase transparency;
- establishing infant industry protection policies.

The participants of the workshop also concluded that FAO and United Nations Industrial Development Organization (UNIDO) could provide the following services to favour improved enabling environments for agro-based investments in Africa:

- information and guidance in contract design, quality standards, etc.;
- advocacy and showcasing good practices;
- facilitate technology transfer through capacity building and information dissemination;
- showcasing innovative experiences in land matters;
- information dissemination for cold chains and logistics;
- showcase innovative public-private cooperation in logistics and cold chains;
- initiate a country ranking system for agribusiness development.

Plenary country papers on enabling environments for agribusiness and agro-industry development¹

Ghana presentation, by Prof. Ernest Aryeetey, Institute of Statistical, Social and Economic Research (ISSER), University of Ghana

A well-functioning agribusiness system and agro-industry is expected to drive stable and sustained growth in industry, generate immediate competitiveness in international trade/commerce and help establish the mutually-beneficial interdependence between rural agro-based production and the urban industrial and service sectors. Thus, for the overall agenda of attaining middle-income status by 2015, accelerated growth in these areas is not only important but decisive in Ghana.

With regard to the current state of agribusiness and agro-industry in the country, the mode and conduct of business in agro-industrial subsectors strongly reflect the dominance of subsistence and rudimentary nature of agricultural production in Ghana. Value addition remains very low, with a domestic agri-market that is dominated by trade in raw produce. Agro-industrial activities are characterized by semi-processing and a low technology base; cottage industries and small and medium scale industries for export market predominate, while large-scale industries are nearly missing. There are a few medium and large industries focusing on regional and international markets, but there is no formal organizational structure for domestic food marketing and distribution. The intermediary role of market women and small-scale agribusinesses is dominant and there is a low level of integration across markets.

In connection with the general perspectives on the enabling environment, the significance of the macroeconomic stability and open international trade policies have encouraged domestic and foreign investment. Enhanced infrastructure, e.g. roads, energy, communication and market support systems, is critical for linking rural production centres to the various intermediaries in the supply chains, managing cost and market response strategies (maintaining international competitiveness). Considering the legal frameworks for management of land use, tenure systems that strengthen and complement enduring customary land tenure arrangements are needed.

Regarding the enabling environment for agribusiness and agro-industry development, the following elements are noteworthy:

- there has been a consistent, comprehensive and increasingly competitive open trade policy, favouring the emergence of non-traditional agricultural exports;
- there has been an export-led development strategy, in a liberalized economic setting;
- there exists a growing confidence in the business environment, economic stability, increasing international competitiveness and as a consequence a growing inflow of private investment;
- there has been restored incentive for agricultural exports and allied businesses e.g. foreign exchange policy regime, import and export tax regime (trade policies), growing stability in price and wage movements (monetary and fiscal management), among others.

¹ This section of the proceedings was originally drafted by the Workshop rapporteur, Mr. Michael A. Boateng.

The result of such developments is a phenomenal growth in non-traditional agricultural exports, resilient growth performance of agro-industry and attraction of major investments into Export Free Zones.

The liberalization of the financial sector and the increasing focus of development activities on poverty and empowerment of rural poor (especially women) have led to expanded operations of microcredit programmes and rural community banking. This has helped to offer better and more innovative financial service schemes to low-income farmers and farmer-based organizations. Various financial support and credit schemes by state and non-state actors have led to a deepening financial service delivery to small and medium enterprises (SMEs) and agro-based economic units. Other intervention measures for agriculture, food processing and distribution development depend extensively on these rural financial institutions to expand outreach and programme effectiveness.

It is important for agribusiness and agro-based industry development to recognize the increasing importance of global trade and the potential for new and larger markets for trade and finance. Policy measures must maintain a keen focus on nurturing the competitive advantage of the country in agriculture and allied businesses for mutually beneficial trade. Proper macroeconomic and international trade policies need to assure stability and consistent focus on deepening incentive for private sector participation in the agricultural value chain. Economic fundamentals must allow price and non-price factors to translate into improved farm incomes.

Recommendations from the Ghana analysis included:

- agribusiness and agro-industry development should assume long-term strategic importance;
- formal arrangements for coordinating development initiatives and policy agendas of the various ministries, departments and agencies of government with those of non-state actors need to be developed;
- a consistent focus on export-led development strategy through expanded international competitiveness needs to be maintained;
- rural and agricultural finance needs to be deepened by supporting financial institutions to be more innovative in managing risk;
- rural infrastructure development must be pursued in a more structured view to developing stronger links between agriculture and industry.

***Kenya presentation, by Dr Wellington M. Mulinge, Kenya
Agricultural Research Institute, Kenya***

The agribusiness sector in Kenya is dualist in nature, with a small proportion of large scale firms and a large proportion of micro, small and medium sized farms. The productivity of agro-industry is generally lower than in other industries because of limited economies of scale. Through the comparison of annual earnings per employee, only spirits, beer and tobacco manufacturing and dairy processing show higher earnings above those of the manufacturing sector.

The major factors hindering development of agro-industry in Kenya are the inadequate and seasonal raw material supplies, low levels of technology, high production and raw material costs, faulty distribution and marketing, and the high cost of credit, as well as problems caused by high corruption levels and generally high taxes for companies (Kenyan companies pay at least 41 different taxes). Kenya has been slow in developing and implementing policies and despite some progress in the last evaluation of business climates performed by the World Bank (WB), it still ranks 72nd worldwide, in that respect.

The following key elements of the enabling environment for agribusiness and agro-industrial development in the country were introduced:

- trade policies, including export promotion policies and incentives schemes for foreign direct investment (FDI) , concessionary import duties on machinery, raw materials, and intermediate inputs;
- the Structural Adjustment Policies (trade liberalization, price controls, privatization);
- a National Export Strategy (NES) to stimulate export growth;
- the Regional Economic Integration Policy (East African Community [EAC] and Common Market for Eastern and Southern Africa [COMESA]);
- the legal and regulatory framework, including improved customs procedures, food safety and standards, labelling and certification, etc.

Kenya has attempted to improve the enabling environment for agribusiness by expanding and upgrading the infrastructural facilities, providing and improving water, electric power, sewers and sanitation, telecommunication facilities and roads. Also, the country has refocused research activities towards industry needs, as opposed to pure academic research programmes. Fostering a strong indigenous industrial entrepreneurial capacity is the focus of the ministry of trade and industry. Economic and financial and regulatory policies supporting micro and small enterprises have been put into place.

The lessons learned with regard to the development of enabling environments for agribusiness and agro-industries are the importance of providing a stable political environment, refrain from market interventions, improve human resources and focus on establishing reliable markets. The presentation concluded that accountability policies need to be implemented at a higher speed. The maintenance and monitoring of a reliable energy supply, especially of electricity, and of other infrastructure items must receive an even higher focus in the country. The prevention of crime should be put on fast track by the government.

The United Republic of Tanzania presentation, by Gasper Ashimogo, Sokoine University of Agriculture, Morogoro, the United Republic of Tanzania

The presentation started by covering key statistics on SSA and the United Republic of Tanzania. The agribusiness and agro-industry sector, despite its socio-economic importance and the high growth rates in some sectors, performs below its potential. However, there have been improvements in the enabling environment for agribusiness and agro-industries in the country over the last few years.

General issues that influence the business enabling environment are the investment promotion policy, public governance, corporate governance laws and regulations, human resource development, liberal exchange rate policies, and competition policy.

The Public Sector Reform Programme has facilitated the development of a market-based economy, while general macroeconomic reforms have had positive effects upon prices. The country's investment promotion policy provides incentives to foreign ownership of locally registered companies, an exemption on value added tax (VAT) and import duties, exemption from foreign exchange controls and the right to transfer abroad 100 percent profits. The country has an Export Processing Zone (EPZ), in which companies enjoy corporate tax exemption for the first ten years of operations, plus exemptions from withholding tax on loan interest and dividends, exemptions from all levies of local governments, as well as access to basic infrastructure.

The new Business Activities Registration Act of 2005 has made the procedure for business registration simpler and straightforward. Recent concessions on agricultural taxation allow land clearing costs tax deductible. Agricultural inputs and implements are subject to zero import duty rates. Measures to promote large-scale farming include the introduction of 100 percent first year capital allowance for plant and machinery, while small-scale agriculture remains tax exempt. Raw materials from the agriculture and fish destined for further processing are tax exempt.

The key success factors for agribusiness development are capacity building and producer empowerment, the introduction of contract farming, improving access to credit, building PPPs, having enhanced dialogue among stakeholders, ensuring sustainability, good governance (e.g. strict accounting, monitoring and quality control), introducing enhanced competition and introducing improved technology.

Increasing agricultural productivity, creating employment opportunities, improving market efficiencies and competitiveness, building market linkages, and strengthening regulatory systems (quality and standards) and trade policy are key issues for agro-industry development.

Some of the constraints faced by the country are of cultural and political nature. Liberalization policies have offered little protection for domestic producers. Extension services have been allocated to local governments and do not function properly anymore. General policy initiatives are project based and not of a long term nature. Agricultural development programmes lack funding and a main bottleneck to these programmes is that there are few of them and these do not necessarily focus on commercialization and diversification. The way forward is to determine means to inform the industry sector and the public of findings, to sustain innovative success factors, to tap, sustain and retain spill over benefits to enhance industry growth, and to build partnerships and make them work better.

There are irreversible forces of change that call for new policy and institutional innovations. This includes diminishing public financial contribution to the agrifood sector, increasing pressure from external markets and forces, and increasing the shift towards more knowledge-intensive and information-based industries. Networks can be powerful tools and mechanisms for improved dialogue and synergies by linking competitors and collaborators, sharing financial and physical resources and joining human capacity across sectors and organizations. However, not all potential network members understand the benefits of the partnership. Public and private sector players need to adopt modest and mild attitudes, e.g. the public sector often perceives private companies as mere profit maximizers and the private sector often criticizes the bureaucracy and inefficiency of the public sector. Also, the industry and public institutions need to work together.

The Gambia case, by Mamour A. Jagne, United Nations Development Programme (UNDP) and Momodou Njie, Economic Development Cooperation, The Gambia*

The paper argues that The Gambia's conditions for agribusiness development are far from being ideal. The country has an underdeveloped agricultural and forestry sector. There is little product transformation and processing activities in the absence of such industries. In short, the authors mention that basic climatic and soil conditions are not in favour for agribusiness development in The Gambia.

The general elements of the enabling environment examined are research and development (R&D), investment finance and infrastructure. R&D levels are low; the country, for example, does not have an institution focusing on food technologies. As such, the management of food safety and quality standards is unsatisfactory. Like many African countries, The Gambia has an underdeveloped and undiversified financial sector, with few commercial banks and poorly capitalized insurance companies. Despite major drawbacks, the country has made some improvement in basic infrastructure, with investments in items such as roads, telecommunication, electricity and water. However, overall infrastructure is still in a poor state.

The investment climate, the availability of long term finance for productive development and improved infrastructure as specific elements of the enabling environment were discussed in more detail. The Gambia ranks rather favourably in Africa regarding the investment climate, having benefited from social and political stability and a laissez-faire tradition. Long term loans for agriculture however, do not exist; interest rates are high and default rates are also high. SMEs are served by non-financial institutions, with little financial capacity. The lack of electricity is identified as the most important problem facing firms in the manufacturing sector.

In the agricultural sector, a policy mix of import substitution for food security and export promotion, by establishing appropriate agricultural investment financing facilities, is recommended by the authors. The country has taken some steps towards macroeconomic stability since 2003 and has implemented key legal reforms by establishing free zones, changing the competition policy, the income and sales tax and the legal framework for telecommunications.

*(The country case from The Gambia was not presented, since the authors were unable to attend the conference.)

Mozambique case, by Danilo C. Abdula, Ministry of Agriculture, Mozambique*

The paper points out that agro-industrial investment after the peace accord in 1992 has been significant, with a focus away from the traditional areas of cotton and tobacco into a more balanced diversification. Sugar and tea plantations are characterized by vertically integrated investments, while cotton uses more contract farming arrangements. About two thirds of the agro-based projects operate in the spot markets, such as those of the cashew sector.

The author points out that investment in research, irrigation and other infrastructure items will help the adoption of improved technologies and can improve the enabling environment for agribusiness development. Governments at all levels need to ensure political stability and good governance. Problems with the implementation of incentive policies, such as the delays in the VAT refunds, need to be reduced. Land tenure in the country is bimodal, with either large or small units. However, most of the land in large holdings has remained underutilized and it is argued that it should be broken into smaller units. The availability of skilled labour is a prerequisite for agribusiness development, and so is a tax system with moderate taxes that apply evenly to a broad tax base.

An in-depth analysis of selected elements of the enabling environment on Mozambique shows that like other African countries, rural areas are disadvantaged in financial services, since structural and institutional weakness hinder financial intermediation. The Southern African Development Community (SADC) allows some degree of industry protection, but the country must comply with regional and international trade agreements for market access. The poverty reduction strategy and action plan of Mozambique has identified infrastructure development, not only for irrigation, but also for improving sanitary and phytosanitary (SPS) equipment, as a high priority. Also, heavy investments into R&D are needed for agribusiness and agro-industrial development.

Mozambique has had some positive experiences with support programmes for small and medium size enterprises of which the Cabinet of Support to Small Investments has performed the best. Overall a positive change in the “doing business” ranking of the WB in 2007, the country still ranks very low internationally (134th).

* (The author of this paper also could not attend the conference)

Plenary papers on special issues in African agribusiness and agro-industry

Supply chain management in the brewing Industry: Potentials for Africa, by Dr. Oluwatosin Abe; Lifecare Ventures Limited Nigeria, Nigeria

The presentation characterized the supply chain from the farm through to the malt house and then to the brewer, identifying the areas where value can be created. The case is an interesting illustration of a successful import substitution strategy.

In Nigeria, beer is brewed with increasing quantities of sorghum malt and sorghum grain adjunct. Primary ingredients in the brewing industry include malt (usually barley, but in this case sorghum), hops, adjuncts (maize, sorghum, rice, etc.), water and yeast.

In the mid to late eighties, the then Nigerian Military Government embarked on a string of economic reforms to jump start the economy, some of which included restriction on the importation of barley and wheat and a rationing of foreign exchange. Substitutes to barley were sought, with sorghum being the most economically viable. The Structural Adjustment Programme (SAP) thus became the birth place of the sorghum supply chain in Nigeria.

The sorghum supply chain in Nigeria is currently a US\$100 million market, comprising seedling producers, farmers, extension services, farming input (pesticides, fertilizer input, etc.), post-harvest/production handling, warehousing and logistics, malting companies and finance companies. Seedling producers develop seeds with desirable characteristics (yield, malting quality, pest and weather resistance, etc.), and supply to farmers. These farmers are usually subsistence, nucleus or large-scale mechanized farms. The extension services are either provided by the government, non-governmental organizations (NGOs) or private-for-profit organizations. These involve training and support on such issues as appropriate farming practices, pesticide and herbicide application, soil preparation, seed handling, etc. The farming inputs include pesticide, herbicides, fertilizers, etc. Post-harvest produce handling, warehousing and logistics involve threshing, cleaning, grading and appropriate storage. The storage can either be in bulk, using grain silos or in sacks in specially constructed warehouses. The use of sacks opens up another supply chain dedicated to bag production and transportation opens up another chain dedicated to the running and maintenance of the transport modes (road, rail or water way).

The sorghum malting industry in Nigeria has a combined malting capacity of over 60 000 metric tonnes (MT) of sorghum per annum. This is expected to rise by as much as 25 000-30 000 MT as a result of more investments in the industry. Apart from the sorghum supply chain, there are other chains that support the malting industry, including packaging, warehousing, logistics, etc. There are also service industries providing engineering, design and capacity building. There are also financial institutions that lubricate the entire chain.

It was concluded that opportunities abound for profitable value addition along the entire supply chain in the malting and brewing industry in Africa and that it would however require deliberate effort and commitment to establish, nurture and empower the industry.

Question and discussion following the presentation indicated that the benefits of the value chain have been possible only because of government intervention. It was stated that the brewers are the biggest benefactors from the chain and that the chain and raw materials can be sustained as long as the farmers get value.

Agricultural mechanization strategy in the United Republic of Tanzania, by Mr. Richard Shetto; Ministry of Agriculture, Food Security and Cooperatives, the United Republic of Tanzania

The presentation covered the characteristics of the agricultural sector and the status of agricultural mechanization in the United Republic of Tanzania.

The United Republic of Tanzania has 44 million ha classified as suitable for agriculture and only about 10.1 million ha or 23 percent is under cultivation. Smallholder farmers cultivate about 85 percent of the total arable land, working in holdings of 0.2 to 2.0 ha. A major limitation for mechanization is the size of land holdings and the heavy reliance on the hand hoe. Agriculture is mainly subsistence, with low crop yields. The major factors contributing to low yields are low adoption of improved crop production techniques, low and unstable commodity prices, highly variable rainfall, low utilization of the irrigation potential, low level of utilization of available land and unreliable supplies of key inputs such as improved seed, fertilizer, agrochemicals and agricultural machinery.

The United Republic of Tanzania Development Vision 2025 envisages that raising the general standard of living of Tanzanians by ensuring food security, improving income levels, increasing export earnings, commercializing smallholder agriculture and accelerating its growth rate are paramount to increased agricultural production. To achieve this, the Ministry of Agriculture Food Security and Cooperatives (MAFC) has developed the Agricultural Sector Development Strategy (ASDS). The primary objective of the ASDS is to create an enabling and conducive environment for improving profitability of the agricultural sector. To operationalize the ASDS, the government launched an Agricultural Sector Development Programme (ASDP) in 2006, which emphasizes promotion and utilization of labour-saving technologies.

Mechanization enhances the human capacity, leading to increases in crop production and household incomes, as well as timely farm operations. It is becoming crucial, in view of the rainy season being short and because it addresses the shortage of farm power caused by rural-urban migration and by the HIV/AIDS and malaria pandemics. It is estimated (2007) that in the United Republic of Tanzania there are over 14 million hand hoes in use, plus 585 244 animal drawn ploughs, 1 307 655 oxen, 81 959 donkeys, 7 200 working tractors and about 6 000 non-working tractors that are repairable. On average, 2 million hand hoes, 20 000 animal drawn ploughs and 300 tractors are imported annually. Tractors, draft animal power implements and hand tools are imported mainly from Europe, the People's Republic of China (PRC), India, South Africa and Kenya. Only small quantities of ploughs, cultivators, rippers and ridgers are produced by small workshops domestically. However, the informal sector which includes artisans and blacksmiths is prominent in the production of carts and small quantities of hand tools.

R & D on mechanization is handled at the national universities, research institutes and in the R & D organizations of the Ministry of Industry Trade and Marketing (MITM). The R & D system is constrained by inadequate financing, limited laboratory and testing equipment, limited human capacity and weak linkages with the private sector.

Training related to mechanization is provided at the universities and training institutes under the MAFC. Only one institute offers a two-year diploma course in agro-mechanics and there is an institution in Mbeya, which offers tailor made short courses on mechanization. The local government authorities (LGAs) have the primary responsibility of supervising and coordinating the delivery of extension services. At the district level, extension service in mechanization is provided by about 300 agromechanics and a few NGOs. Under the ASDP, there will be a shift

towards contracting out services to private Agricultural Service Providers (ASPs), who will be financed through the Agricultural Extension Block Grants.

The Centre for Agricultural Mechanization and Rural Technology (CAMARTEC) is charged with testing of agricultural machinery and implements to determine their suitability to the local conditions, whereas the Tanzania Bureau of Standards (TBS) develops standards for different items. These institutions are constrained by limited laboratory and testing equipment, inadequate trained personnel and poor financing.

In 2005 MAFC embarked on formulating a mechanization strategy (Tanzania Agricultural Mechanization Strategy – [TAMS]) with FAO providing technical and financial support. The strategy mainly involves improving financing of agricultural mechanization, improving policy, legal and regulatory environment for agricultural mechanization, providing training to farmers and extension staff on animal traction technologies, rehabilitating and retooling Ox Training Centres (OTCs), increasing accessibility to animal traction implements through affordable loans, and encouraging the private sector to establish and manage tractor-hiring service centres to increase the accessibility of farm power to the majority of farmers and to import and sell power tillers and provide after sales services.

A loan scheme was also initiated under the Agricultural Inputs Trust Fund (AGITF) in the 2006/07 season at an interest rate of 8 percent repayable in three years. Farmers are encouraged to form Savings and Credit Societies (SACCOs) to access these loans. The loans are fixed with 8 or 10 percent interest rate and for 2 and 5 years respectively.

It was however concluded that the TAMS would need to be monitored regularly and revised to reflect key changes in the economic, policy and institutional environment.

In the discussions following the presentation, it was observed that mechanization institutions, policies and support services are an important element of enabling environments for agribusiness development in the country. In fact, in order to achieve the goal of a 10 percent contribution of agriculture to GDP, mechanization will be of utmost importance in the United Republic of Tanzania. It was also observed that a successful mechanization strategy must ensure that the private sector is encouraged to offer after sales services.

Food safety: Total Quality Management, by Mr. Michael Boateng, Business Strategies and Solutions, Ghana

Food safety, quality laws and regulations, and their enforcement are often cited as key components of enabling environments for agribusiness and agro-industry development. Recognizing the special relevance of this theme in Africa, a presentation on the topic was made, covering the entire agribusiness and agroprocessing chains.

Issues were raised concerning the people who play a role in the value chain, e.g. farmers, transporters, market women, catering service providers, input distributors, consumers, etc. These chain actors lack knowledge on the use of pesticides and herbicides, as well as on post-harvest handling and even on personal hygiene. As a consequence, in Ghana there are many episodes of food poisoning and spoilage. Conditions at markets are mostly unhygienic, storage is poor, and there is insufficient knowledge on sourcing of safe foods and handling foods during preparation and serving. Consumers also need to improve their awareness of the importance of safety and quality, so as to make more informed decisions and insist on what is right.

With regard to the agroprocessing/industrial sector, larger companies, multinationals and a few SMEs have quality assurance systems in place, but generally training is still needed for the management staff and line workers. When existing, training is usually motivated by the need to comply with international or export requirements. Undertaking quality audits (e.g. Hazard Analysis and Critical Control Point [HACCP] audits) and implementing quality systems is considered expensive by many food handling businesses, such as hotels, as well as by food manufacturers.

With regard to laws and regulations, the regulating agencies have overlapping functions. Moreover, regulatory procedures are found to be cumbersome by agroprocessors.

The National Action Plan on Food Safety and Quality Assurance involves:

- institutional support in the area of food safety;
- design and implementation of awareness raising campaign on food safety issues;
- updating of food safety standards;
- public (or semi-public) infrastructure (fishing landing sites, cold chain);
- design and implementation of a matching grant to support private investment in improved technologies and equipment for post-harvest, particularly for small farmers and processor, for maize, groundnuts, cassava and other horticultural crops;
- improvement rationalization and decentralization of laboratory infrastructure capacity;
- upgrading of inspection systems for livestock products/fish products/poultry products;
- training and capacity building for each group of the value chain.

The National Medium Term Private Sector Development Strategy (PSDS) of Ghana (2004-2008), launched in July 2004, focuses on removing or reducing bureaucratic and institutional bottlenecks that constrain private sector development in the country. PSDS focuses on enhancing Ghana's position in the global and regional markets, developing the capacity of private firms and strengthening the government's private sector policy formulation, implementation, monitoring and evaluation capacity. The system of quality standards, especially with regard to the issue of certification, is intended to be market-oriented, so as to benefit the private sector in terms of growth, market access and opportunities, and to promote product acceptance by enabling the growth of accredited commercial laboratories.

Recommendations made to facilitate the implementation of the action plan include:

- assessing the existing system and identifying overlapping responsibilities among various government agencies involved in regulation and supervision of the quality system in Ghana;
- implementing reform proposals, including the legal and institutional framework;
- developing procedures for national accreditation of conformity assessment organizations;
- proposing training for government officials on technical regulations, including study tours and on site training;
- proposing training for private consultants and auditors to help businesses to build quality management or HACCP systems at reasonable or predetermined fees;

- developing the capacity to pilot conformity assessment organizations and laboratories, including training, procurement and supply of necessary equipment;
- determining steps towards the creation of a national and/or regional accreditation body;
- determining steps towards the integration of the Ghanaian system of technical regulation into the global framework;
- addressing issues of public awareness and conduct outreach campaign on the procedures and requirements of the new national system of quality standards and performance and impact assessment.

The main issues raised and generally accepted in the discussion after the presentation was the need to develop technical know-how on food standards and quality which are of relevance to overseas buyers. Although the compliance with quality systems should be promoted by the public sector, the major driver for their implementation is still market demand.

Do African agro-industries need protection? by Mr Kenneth Quartey, Ghana Poultry Association

Trade policy issues, including liberalization measures and export promotion, are another important pillar of an enabling environment framework. The presentation by the president of the Ghana Poultry Association made a passionate case for the protection of the local industry against foreign competition. Mr Quartey stated that the poultry industry of Ghana needed to be protected to be successful. The industry was thriving in the 1990s and has now shrunk to its current status. The association is thus advocating for tariffs to be put in place on imported poultry, in order to protect what they consider to be an infant industry under threat from cheap imports.

The presenter argued that agriculture has proven itself as an effective means of poverty alleviation, wealth generation and social and economic regeneration. The history of farm subsidies in the United States of America show that farm subventions in the mid 1930's were major components of the poverty reduction strategy for a society that, at the time, was 60 percent rural, with a prevalent poor population. The developmental histories of the most advanced countries of Europe demonstrate similar strategies and tools to overcome the poverty that pervaded Europe after World War II.

The president further argued that the economic systems that prevail in the developed societies of the world today are the results of constant engineering. The question thus is not whether Africa should intervene or engineer to protect systems - agricultural or otherwise - but when it should intervene or engineer. In today's trade liberalization policies prescribed for the south, subsidies and tariffs are classified as one and the same to connote protectionism. These tools of economic engineering must be done away with, in order to engender greater economic benefits to all the citizens of the world. Unfortunately, he added, those who advocate for use of either forms of intervention for Africa's agricultural systems are branded as against free trade and globalization.

“But is globalization the process or the goal?”, the presenter asked. If globalization is the goal, then the process toward achieving the goal cannot ignore the developmental history and reality of the developed nations of the world today. For any society, poverty is as much a challenge as it is an opportunity. By generating wealth amongst the poor, we stimulate consumption and create an opportunity for the people to be productive. In the undeveloped societies of the world, most of which are in Africa, these opportunities are being denied to her people. When we accept that our

consumption of food and the rise that will emanate from increased consumption by the poor should be filled by cheaper products, particularly from nations that collectively spend \$380 billion to subsidise their systems, we deny the African farmer an opportunity to generate wealth.

The presenter stated that it is doubtful that anyone can dispute the fact that advanced food production systems that “...dump vast amounts of food on the world market can only do so, at the price at which it is done today, because of the vast amount of subsidies that these systems have benefited from; directly or indirectly, in the past or presently ”. He went further to affirm that “...Africa’s present predicament provides for her people the same challenges; the same opportunities for her people to alleviate poverty, generate wealth and socio-economic development. This is not a new challenge. Indeed many of the advanced nations of the world have overcome this challenge and the challenge of poverty has provided many opportunities to their peoples. Today the prevailing wisdom is that the process of globalization should be used to deny Africa’s people this great opportunity, in exchange for a new process that will turn Africa to consumerism but deny her the opportunity to develop to meet the consumption. This formula, under the guise of free trade, has been described as an innovative way of dealing with poverty and underdevelopment in Africa. There is nothing innovative about reinventing the wheel.”

The controversial nature of the issue was recognized by the workshop participants, some of whom recalled that there are provisions in international trade treaties that, in principle, should allow countries to countervail unfair trade practices. To access export markets, as Ghana has successfully managed to do in the recent years, observance of such trade agreements will remain important.

Value-chain analysis and innovative business solutions, by Mr Austin Ngwira, Clinton Foundation, Malawi

Value chain approaches have been mainstreamed as a framework for agribusiness development planning by a growing number of organizations. The presentation focused on the use of this conceptual framework in Malawi. It was started with an overview of the Malawi business context. The country’s population was 4 million at independence in 1964 and currently stands at 13 million people living on a small land area. Over 80 percent reside in rural areas and agriculture is the main source of livelihood. About 52 percent of the population lives below the poverty line. The economy is agriculture-based, dominated by smallholder production. Tobacco and maize are the major crops and the current policy on agroprocessing is focused on tea, sugar, tobacco, cotton and wheat. There is a long standing macroeconomic instability, but the current leadership appears to be succeeding in stabilizing the economy. The domestic market and private sector are small.

To illustrate experiences with VCA and development by a NGO, the case of the dairy industry of Malawi was taken as an example. As of 2004, 24 percent of the milk consumed in the country was imported, whereas 27 percent of the total consumption was of processed milk from local production and 49 percent was of unprocessed product. The value chain consists of input suppliers, producers, milk bulking and collection centres, milk processors and retailers. The cost and value drivers in this case are input (improved cows and services), producers (business skills and organization), milk bulking and collection centres (cooling tanks, critical mass, power and roads), milk processors (capacity utility, quality testing, R & D), and retailers (refrigeration, power and roads). For each of these drivers an assessment was made of the weaknesses, corrective measures in the form of development interventions were then proposed. They included:

- at the input provision level of the chain: promote crossbreeding Malawi zebu cattle (population is 800 000) using effective and efficient artificial insemination system;

- at the input provision level: develop strategic partnerships with targeted service providers, commercial heifer loan & leasing schemes, and build capacity of local service providers;
- at the farm level: promote effective knowledge and skills training, mind re-setting sessions and gradual capacity building plan (3-4 years);
- for milk collection centres: link farmer groups to financing partners and repay through milk sales deductions;
- for milk collection centres: promote dairy in strategic areas (accessible and feed and water available); promote use of standby generators; stimulate heifer loan and cow leasing programmes;
- at the processing level: stimulate heifer loan & cow leasing programmes to farmer groups;
- at the processing level: promote quality audits and business financial modelling;
- at the retail level: promote training on right temperature setting and product disaggregating.

Two other examples of VCAs and development plans were also presented, covering the potato and wheat chains.

Questions and discussions following the presentation converged on the recognition of the role of value chain assessments as a workable approach to help in evaluating and planning reforms of their enabling environment for specific agribusiness and agroprocessing sectors. The need to form value chain groupings or associations to advocate enabling environment reforms was also highlighted.

Tree crop development potentials in Africa: towards a more enabling environment, by Mr. Charly Facheux, ICRAF, Kenya

Tree products in African economies are dominated by coffee, cocoa, and tea. These tree products are exported mainly as raw or semi-processed materials. In 2000, African tree crop exports stood at almost US\$5 billion.

Tree crop farming, which was formerly reserved for large private or public investors, is today the major source of living for millions, in many African countries. Many farmers operate in smallholdings, which are limited in size (less than 3 ha), rely on family labour, and are quite flexible with managerial constraints. This explains why smallholders dominate the cocoa, coffee, tea, copra, and natural rubber sectors. For example, there are 700 000 cocoa producers in Côte d'Ivoire and 1.6 million in Ghana.

The critical importance of non-traditional tree crop products in local and national economies across Africa is less known. For example, shea butter, produced from nuts of *Vitellaria paradoxa* (karite) grown from Senegal to Uganda and Sudan, is used in chocolate, pharmaceutical, and cosmetic products. Shea nut production in Africa in 2000 was estimated at 650 000 tonnes, about one-quarter of which was exported, at a value of US\$13 million. The bark of *Prunus Africana* is exported to Europe (extract used for treating of benign prostatic hypertrophy).

Exports from Cameroon, Kenya, and Madagascar, are valued at about US\$220 million per year. Locally traded tree products are also often of high value. *Irvingia gabonensis* ('bush mango') for example, is prized for its cotyledons, which are used in sauces. *Dacryodes edulis* ('prune') is a fruit which is boiled or roasted. The two are widely traded in the humid lowlands of West Africa;

values of production in Nigeria and Cameroon were estimated at US\$162 million per year for *Irvingia* and US\$100 million for *Dacryodes*.

The real prices of most of the traditional tree crop products, such as coffee, cocoa, oil palm, and copra, have stagnated or declined significantly over the past several decades. There are however some promising developments. For example, many farmers are benefiting from niche coffee, sold in 'fair trade' or organic certification programmes. In contrast, the future is brighter for most of the non-traditional tree products. The reasons are increasing population, urbanization, and rising per capita incomes in Africa and the increasing demand for natural products in the West.

The main constraints for tree crop enterprises in Africa were discussed, focusing on the non-traditional tree crop sector and on the niche markets for traditional tree crops. These are considered to have the greatest potential for generating growth in agro-enterprises. Most governments and other development agents, projects and NGOs simply ignore them. There is lack of access to government services, lack of information on the marketing of non-traditional tree products, and absence of statistics. It is important to point out that when there is no information there are usually no investments. Many tree products such as fruits are perishable and cannot be stored, contributing to supply gluts and even more price volatility and because of their low supply elasticity (low ability to reduce or increase production in response to price changes).

The solutions provided are:

- design policies for promoting non-traditional tree products. The policy changes could be low cost and would involve attitude changes more than additional resources;
- design appropriate tree tenure policies;
- improve market information to help NGOs and government services to make better decisions about whether or not to promote tree crops and help farmers make better decisions about which ones to grow;
- promote supply management arrangements (national buffer funds and marketing boards): with low implementation costs, target individual farmers, and not only focus on price risks;
- use sustainability standards, which have emerged as important new means for reviving traditional tree product enterprises or starting non-traditional products: eco-certification, 'fair trade' or certification of origin.

There is growing realization that farmers will not adopt improved practices unless it is in their economic interests to do so. It is therefore critical to accompany agroforestry training with business training, so that farmers can assess which products they should produce, what the potential market will be for their produce, and what the profitability will be.

More generic drivers such as technological improvements, farmer group dynamics, credit mechanisms, and linkages between traders and farmers are critical for the development of successful agribusinesses.

Tree farming could also be a source of indirect income from climate change mitigation through smallholder carbon sequestration investments, as well as foster sustainable land use to reduce forest loss in the humid tropics.

Discussions following the presentation brought up the issue of other tree crops such as nutraceuticals (e.g. *Moringa*, *Vocanga*, *Griffonia*, *Phyllanthus*, etc.) and their potential in poverty

reduction for rural people. The presentation was also considered a good illustration of one of the arguments of the workshop, namely the importance of sector specific assessments of enabling environments.

Improving the investment climate, by Mr Richard Tolbert, National Investment Commission, Liberia

Mr Tolbert commenced the presentation by providing a brief background on the political situation in Liberia. The presenter then touched on the roles of the National Investment Commission (NIC). The NIC is a profile agency with a cabinet level position. Its roles are investment policy formulation, investment facilitation (visa, land concessions, meeting promotion, trade shows, etc.), investment negotiation (concessions, agreement with the intervention of the ministries of finance and justice), negotiate investment centre packages and act as a mediator between the private sector and government.

With regards to the enabling environment for agro-based investments in Liberia, the pillars are security and political stability, governance and rule of law, infrastructure and basic social services, infrastructure focusing on agriculture, and revitalizing the economy. The economy relies mainly on mining (gold and diamond) and agriculture, with rubber as its main cash crop.

The agricultural sector needs to be stimulated not only for economic reasons but for social reasons also. Attention is thus being placed on:

- rubber;
- forestry (timber): Liberia is said to have the biggest forest in West Africa;
- oil palm: Liberia is receiving lots of enquiries for the establishment of oil palm plantations;
- rice: Liberia's staple food;
- cassava;
- fisheries: fisheries resources study is being carried out with the help of FAO.

The Government of Liberia is working on stimulating these areas.

The discussion on the issues raised after the presentation indicated that one of the constraints faced in Liberia is the lack of funds to embark more aggressively on enabling environment reforms. Institutional strengthening, improvement in infrastructure and upgrade of support services all require funding that the country has not yet been able to mobilize. Also, the importance of investment promotion was highlighted as an important pillar of enabling environments. The response to the country's efforts in this area have been very positive, but although international investors demonstrate a high willingness to invest in Liberia, the preference is clearly for sectors of fast market growth, such as telecommunications, or of high potential for high short term returns, such as mining. Investors in agro-based enterprises, with the exception of rubber, are not as common, even in spite of the good potential and facilities offered by the country. This example is further evidence of the need for sector specific treatment of enabling environment issues.

Conceptual framework for agro-value chain analysis and development, by Dr. Namal Samarakoon, Industrial Development Officer, UNIDO, Vienna

The importance of developing agrifood value chains is justified in view of their roles in food security (availability, accessibility and safety), income generation (poverty alleviation), rural industry promotion (off-farm job opportunities and mitigation of migration problems), economic growth through exports (increased trade), empowerment of women (change of gender relations) and natural resources preservation (land, biodiversity, climate, impact, bio-energy).

The main challenges for value chain development are posed by a rapidly changing environment (globalization, changing technologies, reduced government intervention, etc.). These changes also provide opportunities, such as the prospect for further expansion of food manufacturing, which has a higher potential than that for increased supply of primary commodities in developing countries.

For comparison purposes, industrialized countries process 98 percent of agricultural produce, add value to the tone of US\$185 per tonne to agricultural produce and experience minimal post-harvest losses. Developing countries process about 38 percent of agricultural produce, add value to only about US\$40 per tonne, and endure about 40 percent post-harvest losses. The potential in developing countries is large, but it needs to be unlocked.

On past development interventions, focus was often placed on post-harvest losses reduction through improved storage, pest control, processing technology, etc. Limited attention was paid to the constraints and linkages in the chains. Value chains in the agrifood sector are complex and need to be analysed with a holistic approach, covering pre-production supply of inputs, production, post-production, and industrial processing and marketing. The analyses should also cover the enabling environment. This includes macroeconomic climate and sectoral policies and regulations, facilitating institutions such as policy, commercial law, finance, market information, standards, markets, technology, food safety, R & D, innovation, property rights, facilitating services, such as transport, storage, processing, packaging, imports, exports, dealers, communications, etc.

The analysis of a value chain is a valuable tool prior to any intervention. It is important to mention that in order to utilize the full potential of the agricultural sector, the value chain must be effective in terms of quantity (volume, regularity and continuity), quality (consistent), timeliness (just-in-time) and transaction cost (which should be minimized). Each activity of the chain should be assessed with regard to constraint in performance and potential need of intervention. In a further step, identified constraints can be ranked according to their priority and can be assessed with regard to their influence on backward and forward linkages in the chain.

Governments could be facilitators in carrying out primary provision of public goods (infrastructure, legal and regulatory framework, markets governance, supporting R & D and education, etc.), indirect interventions (incentives and support services for private sector development), and coordination (macroeconomic and sectoral policies and dialogue with the private sector). Capacity building should be promoted for trade and industry associations, standards, R & D, innovation, food control laboratories, and relevant national institutions. The private sector should be encouraged to collaborate with the government and other partners, participate in steps of agro-value chain development, participate in R & D, develop market networks and form sector/producers' association, promote and support regional cooperation, and develop self monitoring mechanisms. UNIDO proposes to play the role of a facilitator.

In the discussion following the presentation, participants reinforced the observations in the presentation from Malawi, on the importance of VCA and on the desirability of forming associations joining the stakeholders in a sector or value chain. It became clear also that it is a major challenge to form such associations.

Chile's and Viet Nam's successes in the agrifood sector, by Alexandra Röttger, Agricultural Management, Marketing and Finance Service (AGSF), AGS, FAO, Rome, Italy

These two countries are often referred to in literature as success cases of promoting agribusiness development. The presentation summarized their agribusiness development policies. It started with a brief overview of the history of agricultural development and then focused on the performance of Chile and Viet Nam's agrifood sectors, looking also at socio-economic statistics.

Chile's policies with regard to export promotion strategy since the 1970s have centred on competitive exchange rates, reducing import duties, constant streamlining of export procedures, setting up and maintenance of export promotion institutions and opening up to FDI. The critical success factors of Chilean agriculture are notably the open market strategy, the development of an export-oriented strategy caused by the very small internal market, the development of technical know-how on food standards and quality of relevance to overseas' buyers, the strict enforcement of national food standards and regulations and the creation of trade alliances (United States of America, European Union [EU], Mercosur, North American Free Trade Agreement [NAFTA]). Also important were the good infrastructure, a solid economy with sound regulatory environment, the respect of private property and political stability.

Viet Nam's policy reforms included production quotas to the smallest farm units, long term land use rights, land transfer and inheritance, legalized sales, taxation according to soil fertility, and the introduction of credit. Success factors include:

- A comprehensive stabilization programme, started in 1989: fiscal and monetary policy changes, restructuring of tax system, and cease of inflationary finance by the state bank. The results have been increased FDI and private investment and achievements in poverty reduction and human development.
- Land reform (after 1981): assignment of land from cooperatives to households. A turning point happened in 1993 when long term land use rights, exchange, transfer, lease, etc. were granted to households.
- Input subsidy policy (1990s): better seeds and livestock breed improvements despite general reduction of direct intervention in production; subsidized water fees (~50 percent of total cost), subsidized interest rates (30 percent below market rate).
- Other policies: abolishment of intervention prices (after 1991 there are no more export quotas of key agricultural products [rice, tea, coffee]), lowering of average import tariff to 18 percent but very differentiated ranging between 0 and 100 percent, gradual removal of export tax and removal of state licenses.

The main lessons from Viet Nam's success are the market-oriented reform, the application of selective direct agricultural supporting policies (interest and water fees), the low levels of agricultural protection (international competitiveness), and the implementation of land reform, all essential to boost production.

Following the above two presentations, the participants discussed the common grounds between Viet Nam and Chile, and arrived at the following conclusions:

- market oriented reforms;
- liberalization of the economies;
- heavy export orientation;
- low levels of agricultural protection, but credit and water use support in Viet Nam;
- land reform in Viet Nam to boost production;
- active attraction of FDI.

Experiences from Eastern Europe and Latin America, by Carlos A. da Silva, FAO-AGSF, AGS, Rome , Italy

The presentation consisted of an introductory overview of FAO's ongoing work in the area of enabling environments for agribusiness and agro-industries development, followed by a discussion of the assessment framework utilized by the WB's "doing business" surveys and by a review of the Organisation of Economic Co-operation and Development's (OECD) "policy framework for investments". The results of the FAO regional workshops conducted in Eastern Europe and Latin America were then highlighted.

The WB's Doing Business Surveys are the most authoritative cross-country comparisons of so called business climates for investments. The survey framework considers ten different elements, which form "the regulatory costs of doing business". They are respectively: Starting a Business; Dealing with Licenses; Employing Workers; Registering Property; Getting Credit; Protecting Investors; Paying Taxes; Trading Across Borders; Enforcing Contracts and Closing a Business. Standardized measurements were developed for each of these factors, thus allowing comparisons among countries, either in a factor by factor basis or by an aggregate index reflecting the "ease of doing business". Countries are ranked on the basis of their overall performance, with the results being made public every year. Positive changes in the rank, from one year to another, are interpreted as an indication of a country's engagement in business climate reforms. The best performers and top reformers in the last surveys were presented and discussed.

The OECD Policy Framework for Investments consists of a list of ten issues which countries should consider, in order to promote investments. They are: investment policy, investment promotion and facilitation, trade policy, competition policy, tax policy, corporate governance, policies for promoting responsible business conduct, human resource development, infrastructure and financial sector development and public governance. Unlike the "doing business framework", OECD's reference frame is not used for measurements or country rankings, but it offers instead a set of principles that, if properly addressed, can establish the conditions for a more enabling environment for investments.

The FAO regional workshops discussed these two frameworks, leading to an agreement that, whereas they are doubtlessly useful for assessments of enabling environments, they lack specificity when it comes to the particular features of economic sectors such as agribusiness and agro-industries. Although most of the elements of the two frameworks are applicable to assessments of enabling environments for agribusiness and agro-industries, there is scope for the introduction of additional elements.

The FAO workshops in Eastern Europe and Latin America prioritized a number of issues for enabling environment assessments and reforms that were common for the two regions, namely

agribusiness finance (availability, access, conditions), food safety and quality standards (plus associated infrastructure), legal and regulatory frameworks, roles for public and private sector in agribusiness development (facilitation and leadership), chain coordination mechanisms, R & D policies for the agrifood sector, and rural infrastructure.

Additional, specific areas prioritized in Eastern Europe are: agricultural and risk management, quality management systems, information provision and a range of themes associated with the requirements for EU accession. In Latin America, the additional priority themes were the need for methodologies for enabling environment's appraisal, the need for incentives to the formation of productive alliances and the importance of farmer organization for market access.

During the discussion of the presentation with the African workshop participants, the doing business surveys was subject to both criticism and praise. Critics pointed out a perceived lack of transparency in the survey processes, which are reportedly done without consultation with government officials. Yet, consensus was reached on the fact that the survey is a very powerful instrument to trigger enabling environment reforms. Participants also saw value in a survey that could focus particularly on enabling environments issues pertaining to agro-based investments.

Round table discussions

The objectives of the roundtables were to exchange information about the current situation in African countries with regard to major issues and constraints affecting the creation of an enabling environment for agribusiness and agro-industry development in the region.

The list of priority themes that emerged in the previous FAO workshops was divided by the organizers into two sets of issues. Participants were assigned into two groups and asked to discuss the respective list of items in detail, taking their country perspectives and own professional experiences into account.

One group of participants dealt primarily with issues related to the legal and regulatory framework , i.e. contract law, licensing, customs, FDI , property right and land tenure as well as institutions and services (finance, professional associations, extension services, business advisory services).

The group concluded that the legal and regulatory framework regarding the implementation of legislation in Africa is slow, laws are outdated, law enforcement is weak and monitoring and evaluation is weak. In some countries there is an excess of regulations, which can also create bottlenecks for businesses to grow.

The second group set out to discuss public-private cooperation in food safety and quality, infrastructure, risk management, investment, trade promotion, business linkages as well as agro-industry specific promoters of development, such as raw material supply management, land tenure, contract farming, overcoming seasonality, cold chains and logistics.

The following actions regarding the improvement of the legal and regulatory framework for agribusiness and agro-industries were proposed:

Contract law:

- provide capacity building for advocacy groups such as NGOs, legislators, government officials and others, including farmers and other food value chain actors, plus private sector associations and groupings;
- provide incentive schemes to attract specialists into relevant support institutions;

- organize farmers in groups and strengthen such groups, so that contracts with larger scale agribusiness companies can be made and with more balanced bargaining power;
- streamline contract farming systems, with price fixing at the beginning of the season and prompt payment on delivery;
- equip the legal system with fast track modes with regards to all contractual relations, in order to boost contract enforcement.

Licensing:

- establish one-stop shops for obtaining licences for business start-ups, imports etc,
- harmonise license and customs procedures;
- introduce information technology (IT) systems which would link up relevant institutions and avoid delays.

FDI:

- ensure political stability, as this is the most important area of action to attract FDI;
- provide adequate infrastructure services, such as roads and utilities;
- create explicit laws with investment incentives.

Quality standards:

- collaborate to agree on regional standards, in order to enhance regional trade;
- improve the implementation of health and safety standards.

Tax policies:

- establish tax holidays, in order to stimulate investment in strategic crops.

Land Tenure:

- establish land banks to improve land use at national level;
- implement schemes for land use planning, including suitability maps; raise awareness among stakeholders on the availability of land banks and land use and suitability maps, and establish an easily accessible database on land ownership e.g. on the internet.

The group also proposed action areas with regard to institutions and support, as follows:

Institutions:

- strengthen institutional capacities to work on local and regional market development, in order to improve interregional trade;
- improve delivery of virtual trade centres, such as trade fairs and networking on a national and regional basis.

Support:

- carry out a training needs assessment and conduct subsequent capacity building for all support institutions, such as government, research institutes, finance institutions, farmers' associations, NGOs, utilities providers, HACCP auditors;
- establish PPPs in cold chains;
- improve the application of metric systems.

As to the second working group, there was agreement on the following action areas:

Contract farming:

- reduce rigidity of contractual clauses and introduce negotiation flexibility in contract design;
- introduce and follow up on a legislative framework for contract farming and enforcement of contractual arrangements;
- encourage contractual arrangement within farmers' groups, in order to avoid individual side selling.

Raw material supply management:

- encourage the establishment of appropriate storage facilities; on the issue of seasonality, storage facilities should be established, the use of appropriate technology, R & D, and irrigation should be encouraged;
- invest into capacity building regarding the use of appropriate technology.

Land tenure:

- ensure access to land;
- streamline the procedures, provide information relating to land, and ensure transparency in land matters.

Logistics and cold chains:

- provide capacity building of stakeholders;
- provide information to potential private and public investors on how to plan and organize cold chains;
- build a conducive environment for cold chain development through PPPs;
- facilitate the transfer technology especially in renewable energy, provide the environment for development of cold chains (possible area of public-private cooperation).

Trade policy:

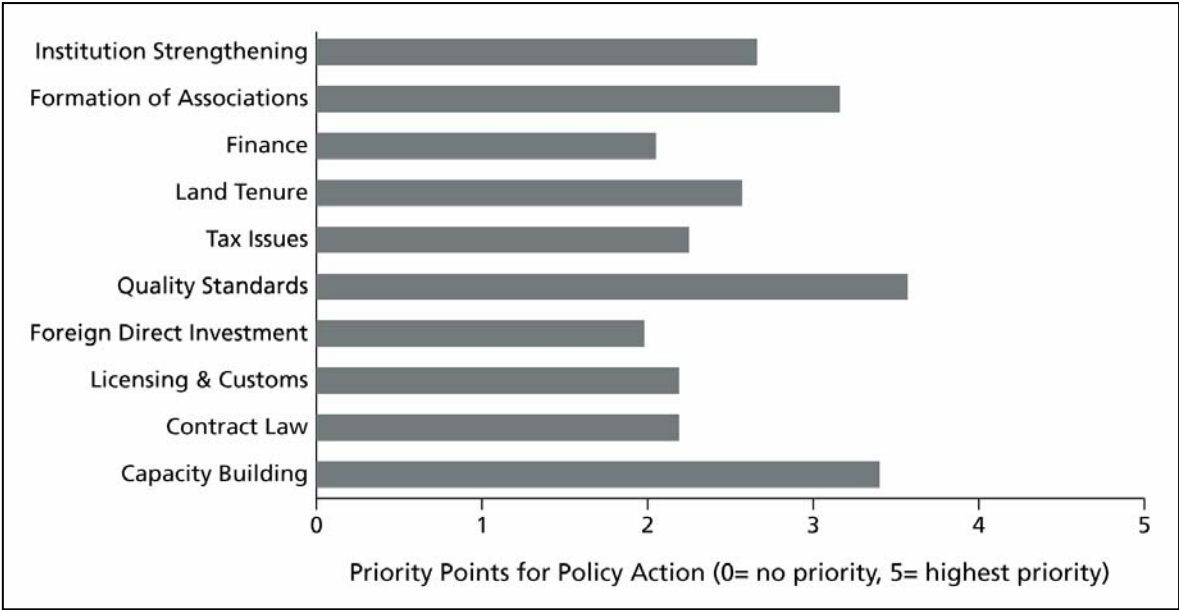
- establish infant industry protection in crucial but selected sectors preferable with those with large domestic markets.

Prioritization of issues

Participants were also asked to prioritize, within their groups, the themes they deem relevant for interventions towards improvement of enabling environments. A scale from 1 to 5 was defined for the prioritization, where 1 denotes low priority and 5 high priority.

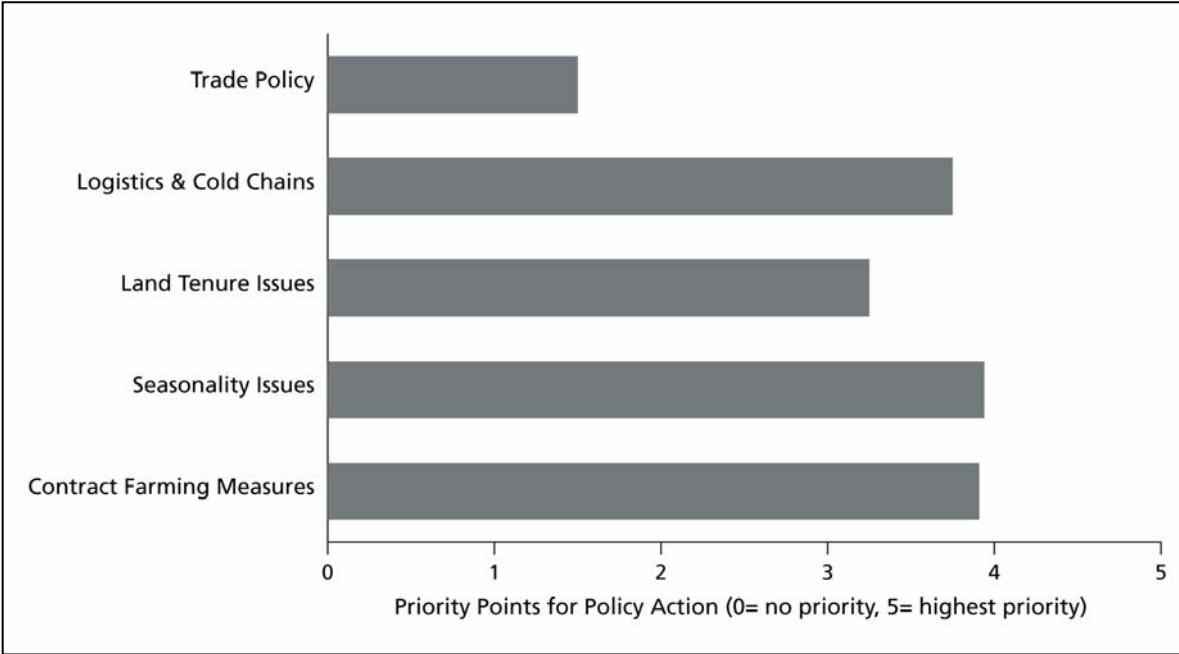
For the group dealing with the legal and regulatory framework, the highest ranks were attributed to quality standards, the formation of product or value chain associations and capacity building. Finance, contract law and FDI attraction obtained a lower priority (Figure 1).

Figure 1. Priority rankings: Legal and regulatory frameworks



The group which dealt with public-private cooperation and agro-specific promoters of development ranked the problems of seasonality highest, followed by contract farming measures and logistics and cold chain issues. Land tenure issues followed, while trade policy was ranked the lowest (Figure 2).

Figure 2. Priority rankings: Public-private cooperation and agro-specific issues



These results were discussed in a plenary session, which endorsed the conclusions and recommendations that emanated from the group work and proposed a number of areas where FAO and UNIDO could assist their member countries with regard to the promotion of enabling

environments for agribusiness and agro-industrial development. The suggested action areas for the international organizations were:

- information and guidance in contract design, quality standards, etc.;
- advocacy and showcasing good practices;
- facilitate technology transfer through capacity building and information dissemination;
- showcasing innovative experiences in land matters;
- information dissemination for cold chains and logistics;
- showcase innovative public-private cooperation in logistics and cold chains;
- initiate a country ranking system for agribusiness development.

The workshop activities were closed by a word of thanks from the organizers and by an indication of the envisaged follow-up activities, which would include the utilization of workshop results in a synthesis paper presented in the Global Agro-industries Forum, which was jointly held by FAO, UNIDO and International Fund for Agricultural Development (IFAD) in New Delhi, in April 2008.

Full country papers

The Gambia

Mr. Mamour Jagne – UNDP
Mr Momodou Njie - EC Development Cooperation

Executive summary

The Gambia is yet to demonstrate the ideal conditions for the development of a vibrant agribusiness sector. The soils are infertile, water resources are limited, and the climate offers only a short growing season, except in the few areas where irrigation is possible. In addition, the main elements of the enabling environment for agribusiness development, namely R & D, investment financing and infrastructure are still underdeveloped and will remain so under the prevailing circumstances. Nevertheless, there are opportunities in subsectors such as sesame, cashew and mango, and perhaps onions and potatoes. With such products, there may at last be export income generating alternatives to groundnuts. Below is a summary of the key constraints and challenges facing agribusiness development in The Gambia.

Infrastructure:

- Roads – the poor state of the roads in the interior adds to the cost of marketing and delays the evacuation of produce.
- Power – supplies are reportedly erratic and scarce. Processing of any kind is difficult to develop in these conditions.
- Port – the Port of Banjul works well in comparison to other regional alternatives but it is increasingly crowded.
- Air-freight - the capacity for air-freight is perhaps the critical binding constraint at present.
- Up-country storage – present facilities are inadequate with little provision for storing crops.

The commercial environment:

- Interventionism – the government and its agencies must avoid intervention in commerce and marketing. The experience in 2006, with sesame in The Gambia and with cashew in Guinea Bissau, highlights the perils of intervention in the private sector.
- Finance – as agricultural exports grow, the banks must be capable of financing the exports at competitive interest rates.
- Land tenure – a diversified production base needs to be developed that not only encourages the small-scale producer but also encourages investment in larger facilities.

Agricultural support:

- Research and extension – This is under funded and staff is demoralized. The sustainability of agricultural exports depends on the ability to remain competitive in production. This requires not only development of the crops considered here but also investigation of other potential exports.

- Seed development – The asset base of agricultural producers needs to be supported through the introduction, testing and multiplication of new varieties.
- Farmer training – The capabilities of the farmers themselves should be developed, to introduce alternatives to groundnuts, developing good agricultural practices as well as marketing skills.

There is an urgent need for a departure from the “business as usual approach” that government has towards the agriculture sector. The socio-economic importance that is often said to be associated with the sector must now be reflected, in practical terms, in the budget, policies, strategies and above all in the sector’s effective contribution to GDP. The inherent problems associated with factors of production (land, labour and capital) and productivity should be addressed urgently. A review of the land tenure system is long overdue. Equitable access to, and serious investments in the land resource can only happen under a credible land tenure system.

Government, in partnership with the private sector, should vigorously pursue all viable opportunities that can enhance access to and affordability of investment financing to the agribusiness sector. The much talked about agricultural credit bank is an option that needs to be carefully situated. Correspondingly, the commercial banks through their association should engage government in addressing the constraints posed by certain laws and regulations governing debtor-creditor relations. The research and extension services need to be revamped and extended beyond the farm, covering the entire agrifood chain. An institute of food technology readily comes to mind as a crucial need. Government should also devote attention to the reinforcement of local capacities (human and institutional) for the development and management of quality standards for both domestic and imported commodities.

Characterization of The Gambia’s agribusiness sector

The agriculture sector is primarily rural based and subsistence in nature. Transforming the agricultural production base to have better linkages with agribusiness and industry remains an unattained objective. Despite employing about 70 percent of the labour force, the agriculture sector is still a generator of raw materials with little added value, contributing 33 percent to GDP, and meeting about half the country’s food security requirements. With all the efforts geared towards diversification within the sector, demonstrated long-term results have only been registered around groundnuts, horticulture and fisheries.

The agribusiness sector, as defined from a commercial perspective, encompasses all forms of business activities including production, processing, and marketing of inputs, equipment, produce and by-products, as well as the provision of agricultural support services. In the case of The Gambia, production activities, especially at the household level, are undertaken usually for subsistence purposes. In the crop subsector, the most extensively grown include millet, maize and rice, and these are for household consumption, except for the surpluses that are marketed domestically. There are however, a few crops classified as cash crops including groundnut, sesame, cotton and horticulture that are produced mainly for commercial purposes. At the household level, the average cultivated area is about 10 ha, broken down into individual holdings of 0.5 – 5 ha. (2005-2006 National Agricultural Sample survey).

In the early 1990s, there were attempts to develop the export of cut flowers based on gladioli, chrysanthemums and summer flowers. In 1991 an estimated 30 active horticultural enterprises²

² Exporters included Farato Farm, GHE, Citroproducts, Sinchu Farm, Tanji Farm, Faraba Farm, Makumba ya, Sifoe and Radville

were engaged directly or indirectly with exports of fresh produce to Europe, though two, Sifoe and Radville, dominated. In 2006, there were three extant horticultural export enterprises in The Gambia: Radville Farms, Kharafi and Gambia Horticultural Enterprises. However, the short growing season and the difficult operating environment combined with a shortage of freight space led to the failure of these investments.

The picture is about the same for the livestock subsector, where the types are limited (cattle, sheep, goat, pig and poultry), and so too are the commercially oriented business units. Only poultry, and in particular chicken, is produced on relatively large and intensive scale by a few private businesses operating within the greater Banjul area. Flock sizes range from 500 to 10 000 birds.

Forest and wooded land account for 9 and 19 percent respectively of The Gambia's territory. Forestry accounts for just 0.5 percent of GDP, with an estimated 6 percent of the labour force involved in forestry activities dominated by timber and fuel wood. In 2001, The Gambia exported about US\$0.25 million of forest products, mainly sawn-wood and wood-based panels. The private exploitation of forest resources requires a license or timber permit issued by the Department of Forestry in accordance with the Forest Regulations of 1978, as amended in 1996. The average applied tariff on forestry and logging is 12.4 percent, and this was observed to have displayed positive escalation in the wood and wood products industry. The objective of the Forest Policy is to increase the extent of forest cover to 30 percent in order to fight desertification; hence the proliferation of private and community owned forests and woodlots.

There is little product transformation/processing caused by the near-absence of agro-based industries. Most processing activities are basic, especially for crops, and entail threshing, shelling and sometimes sorting and packaging. These activities are carried out primarily to transform the produce into less bulky forms for either storage or export. At the moment the commercial processing establishments (mostly state or community owned) are predominantly found within the group of cash crops mentioned above. There is no history of exports of fruit and vegetable preparations such as juices or conserves. The few existing small-scale processors are not in a position to export: they have neither the quantity nor the certified quality controls that meet international standards.

Extension and market information services are provided by the Department of State for Agriculture (DoSA), through two technical departments i.e., Department of Agricultural Services (DAS) and Department of Planning (DOP) respectively. Following the restructuring of the DoSA and the setting up of a National Agricultural Development Agency (NADA) in late 2006, the government in addition to the two technical departments, set up a dedicated agribusiness unit to deal with commercial and cooperative business activities.

Agricultural finance used to be provided about three decades ago by the defunct Agricultural Development Bank. Subsequently, The Gambia Commercial and Development Bank was opened with an agricultural finance portfolio. This arrangement was however short-lived, as a result of the rapid exhaustion of allocations for agricultural financing, most of which went into non-agricultural activities. The bank was bought by Trust Bank Limited, and it focused mainly on short-term lending to non-agricultural business operations. The void in agricultural financial services is increasingly being filled by a plethora of microfinance institutions. The microfinance institutions, albeit their exorbitant interest rates (above 30 percent per annum [p.a.]), are highly responsive to the needs and situations of small to medium-scale agribusiness enterprises.

Overall, the performance of the agribusiness sector in terms of output and contribution to GDP is highly variable, and dependent on a number of factors including weather conditions, policy and institutional frameworks. Production and productivity of arable crops and livestock have witnessed considerable fluctuations attributed to poor marketing arrangements, unfavourable weather conditions, limited and/or low quality inputs and services. With both fruits and vegetables, the progress and subsequent retreat of the export trade was also associated with the cost and availability of air freight space. Lately, the air-freight trade in beans has come under pressure from developments in Morocco and Egypt where much cheaper surface freight options are available for moving cargo to markets in Europe.

Groundnuts still remain the country's main cash crop and are grown by about 80 percent of rural households. It plays a central role in rural life, providing food, fodder and income, while also creating jobs in transport and processing, as well as foreign exchange. Despite the subsector's importance, groundnut farmers are among the poorest members in Gambian society. Commercial outputs have demonstrated no clear trend over the last two decades, recording about 40 000 MT in 1993, rising to a peak of 70 000 MT in 2002, and dropping to below 10 000 MT in 2003. These fluctuations were the combined effects of low production, inadequate processing capacity, and low prices. It is however, the subsector with a relatively better developed marketing infrastructure. Farmers market their produce (usually the unshelled groundnuts) at the Cooperative Produce Marketing Societies (CPMS). They also have the option of selling the kernels at the local market. The Federation of Agricultural Cooperative Societies (FACS) coordinates the operations of the CPMS. The state owned Gambia Groundnut Corporation (GGC) has a set of industrial assets comprising nine depots along The Gambia River, used mainly as temporary storage facilities; two shelling plants; two crushing plants, a solvent extraction plant and a groundnut cake detoxification plant. Together these facilities perform the functions of processing the commercial crop into birdfeed, hand pick select (HPS), oil and cake. In addition to these, GGC has a fleet of barges that transport groundnuts along the river from the provincial depots to processing plant at Denton Bridge.

The Gambia is among the countries endowed with rich fish resources within its coastal waters and The Gambia River. It is estimated that 26 500 to 32 000 people are employed in fisheries activities, which account for 2.5 percent of GDP³. Fish and fish products generate approximately 15 percent of export earnings (excluding re-exports). Artisanal fishing for pelagics (such as shad, sardinella, anchovies) in coastal waters and the river is thriving, with most of the catch destined for the home and regional markets in dried or smoked form. Industrial fishing for demersal fish (shrimp, sole, snappers, cuttlefish, octopus) supplies the export market in Europe. The industrial fishing is affected by four key problems: i) The threat to the demersal fish stock caused by over-exploitation; ii) Limited local fish processing caused by the unreliable and high prices for electricity, and the high cost of finance; iii) The absence of a deep water fishing port for industrial vessels, and poor landing facilities for artisanal fishing; and iv) the lopsided fisheries agreement between The Gambia and Senegal.

³ Enterplan, Capacity Building in Support of Preparation of Economic Partnership Agreement (8 ACP TPS 110) #103 – The Gambia (2005)

General characterization and assessment of key elements of the enabling environment for agribusiness and agro-industrial development

Investment policies

Investments in The Gambia, both local and foreign, are governed by a set of legal, policy and institutional frameworks within the general investment policy environment. The Gambia Investment Promotion Free Zones Act (GIPFZA) was established in 2002 to undertake active investment promotion in the country. Its activities have improved the general awareness of The Gambia as an investment location. Since then it has managed to attract a good flow of new investments. Forty-five new investments are operational, with a total investment of over US\$220 million, with another 33 investments in the pipeline. Besides GIPFZA, other specialized institutions and agencies also undertake investment promotion and facilitation activities. These include The Gambia's embassies and diplomatic missions, the Gambia Tourism Authority (GTA) in the tourism sector, and the Gambia Chamber of Commerce and Industry (GCCCI). Local business persons do carry out investment promotion functions in their bid to attract joint investments from foreign partners.

This offers numerous incentives under the Special Investment Certificate (SIC) scheme, which among other things allow for capital equipment and production inputs to be imported free of duty and sales tax. In addition, there is provision for a five-year tax holiday on the turnover tax as well as accelerated depreciation. Alongside the SIC, new investors under the GIPFZA can instead opt for the Free Zone Certificate, which offers a similar set of incentives, except that the tax holiday lasts for ten years, instead of five. In return, there is an obligation to export at least 70 percent of sales. The enabling legislation, The Gambia Free Zones Act 2001, allows for single-factory free zones, as well as multi-factory fenced zones. Surprisingly, out of the 45 foreign and local firms that have set up new investments over the past five years, only two firms have opted for the Free Zone Certificate. There is in addition to these schemes, presidential discretion in the granting of investment incentives. However, obtaining and utilizing a SIC is a complex affair. Each project has to be individually approved, as does each list of capital equipment and production input imports.

Although GIPFZA administers the SIC scheme, the ultimate approval of these import duty waivers is given by the Department of State for Finance and Economic Affairs (DoSFEA). There are legal provisions for the protection of investments, particularly FDIs. As part of the investment incentive package, investors are given the liberty to repatriate as much of their returns as they wish. A review of the whole system of regulating new investments, primarily the SIC scheme, is envisaged in the near future. It is expected to provide an excellent opportunity to make the whole process of setting-up an export-oriented investment in The Gambia easier and more predictable

Trade policies

The Department of State for Trade Industry and Employment (DoSTIE) is responsible for formulation, coordination and implementation of trade, investment, industrial and competition policies. DoSTIE takes the lead role in trade negotiations, which are conducted in collaboration with the Department of State for Foreign Affairs. The Department of State for Foreign Affairs (DOSFA) oversees The Gambia's embassies, which serve as channels of communication between DoSTIE and foreign trade concerns. The embassy in Brussels is particularly important for the link with the EU and the World Trade Organization (WTO). Other Departments of State whose

functions have a bearing on trade policy include DoSFEA, responsible for tariff-setting and monitoring of the impact on the Gambian economy of the gradual implementation of the Economic Community of West African States (ECOWAS) Common External Tariff (CET); Department of State for Justice (DoSJ), responsible for registration of businesses and companies as well as law administration; DoSA, responsible for the agricultural policy and technical regulations and control governing import and export of plant materials and livestock; Department of State for Fisheries and Natural resources, responsible for the corresponding policies and technical regulations.

The Policy Analysis Unit in the office of the president also has an indirect role in matters of trade policy. The unit coordinates and monitors sector policies, and is kept informed on all developments in the area of trade policy. The Customs Department and the Central Bank of The Gambia (CBG) collect and compile trade related data. The customs, in addition to implementing the tariffs set by DoSFEA, uses its Automated System for Customer data (ASYCUDA) to collect data on merchandise trade. This information is fed to the Gambia Bureau of Statistics (GBOS) which generates the reports. The need to negotiate an Economic Partnership Agreement with the EU through ECOWAS, has led The Gambia to establish a committee system to develop negotiating positions, and also to disseminate the results of negotiations back to all concerned parties. The committee includes government departments and agencies and representatives of the private sector and civil society.

The multi-agency stakes in trade policy matters makes the trade policy formulation process fragmented and tedious, requiring wide consultation and coordination by DoSTIE. This urgently calls for a detailed trade policy, as well as an effective coordination mechanism. At the moment, The Gambia does not have a detailed trade policy, and relies mainly on broad policy statements. The limited capacity to analyze key trade issues, define trade objectives and formulate and implement effective trade policies is also an issue.

The reforms of 1998-2000 attempted to change the tariff structure from one with 30 bands of scheduled or *ex ante* tariff rates, which ranged from 0 percent to 90 percent, to one with six rates ranging from 0 percent to 18 percent. The modal rate of 18 percent (56 percent of all tariff lines) is applied to almost all agricultural and food products, plastics, certain types of rubber products, leather and leather products, among others. In December 2005, further adjustment was made to the modal rate of 18 percent to 20 percent as part of the implementation of the CET.

Trade reforms also dismantled almost all quantitative restrictions to trade. Import prohibitions are maintained only on security, environmental, health and morality grounds, as well as under international conventions to which The Gambia is a party. Table 1 illustrates the tariff rates applied by industry.

Table 1: Average applied tariff rates by industry (percent)

	Number of lines	Average Tariff
Agriculture, hunting, forestry & fishing	283	14.4
Mining and quarrying	104	7.3
Manufacturing	4 637	12.8
Food, beverages and tobacco	449	16.4
Textile, wearing apparel and leather	858	15.3
Wood and wood products	81	14.9
Paper, paper products, printing	149	15.1
Chemicals, petroleum, coal, rubber	1 006	9.8
Non-metallic mineral products	158	13.6
Basic metal industries	401	11.9
Fabricated metal and machinery	1 330	11.1
Total	5 025	12.7

Source: The Gambia's DTIS report 2006

The Gambia has for more than two decades liberalized key macroeconomic variables including the exchange rate regime. Unlike the CFA franc (common currency used across western and central Africa) which is pegged to the Euro, the dalasi was floated. The dalasi has experienced very little movement against the US\$ over the past two years, but has experienced a moderate depreciation vis-à-vis the CFA franc, reflecting the appreciation of the Euro. The months of August and September of 2007 have however witnessed a dramatic appreciation (averaging 32 percent) of the dalasi against all foreign currencies. It is a phenomenon that puzzles many, and does not seem to have a ready explanation.

The Government of The Gambia adopted a Competition Bill in 2007 to promote competition in the supply of goods and services. The Bill provides for the establishment of a Competition Commission to complement the work of the Public Utilities Regulatory Authority. The Bill specifically prohibits collusive agreements and bid rigging, and provides for investigation and control of monopoly and merger situations. Above all the Bill seeks to create understanding of the benefits of competition and provides for other matters connected therewith. The Bill is expected to be enacted into law by the end of 2007. Concomitantly, the process of formulating a competition policy has begun to ensure effective application of the provisions of the Bill when enacted.

Tax policies

The Gambia has a narrow tax base and is highly dependent on import taxes. The main domestic taxes that apply to imports are the sales tax, and the excise tax. The latter applies at varying rates to selected goods, and was implemented to compensate for revenue shortfalls arising from the tariff reform. The sales tax applies to virtually all goods and services, typically at a rate of 10 percent, which has been changed to 15 percent in December 2005. The newly established Gambia Revenue Authority (GRA) is a product of an institutional restructuring which brought together the Customs and Excise Department and the Income Tax Department. The GRA has as one of its objectives the broadening and diversification of the tax base in the country, in addition to improving collection efficiency from all spheres including the informal sector. One major concern of businesses in general is the uncoordinated proliferation of local and sectoral

taxes, which together are oppressive to business. The cumulative level of these taxes is too high, and moreover, the tax rules are not well disseminated. The Tax Tribunal, as provided in the Income and Sales Tax Act 2003, has so far not been implemented. In principle, exports are supposed to attract a 10 percent tax, while almost all exports particularly agricultural and fisheries products are exempted in practice. This exemption is considered vital for export promotion.

Human resources

The Gambia is heavily dependent on its human capital for sustained economic growth and poverty reduction. Across all sectors of the economy, the lack of human capital both quantitatively and qualitatively continues to be a key constraint, resulting in the erosion of economic gains and diminishing qualities of service delivery. There is a general skills shortage in the country caused by the steady outflow of highly qualified and competent Gambians, mainly to Europe and the United States of America. The country is witnessing a diaspora, caused by a search of better jobs and economic opportunities. The low salaries within the public sector have resulted to high staff attrition in favour of the private sector. At present about 75 percent of the skilled workers employed in the country are non-Gambians⁴. This skills shortage is very much felt in domains like construction, motor mechanics, welding & joinery, commerce, and tailoring. The country adopted a Technical Vocational Education and Training (TVET) policy in 2002, and subsequently established the National Training Authority (NTA) to implement the policy. NTA's priority is to make technical and vocational education and training accessible and relevant to the needs of the labour market, including the rural areas. NTA maintains a Labour Market Information System as well as a Training Standards Lead Body to develop and promote minimum standards, principles, criteria and systems for national vocational qualifications and the licensing and monitoring of awarding bodies. In recent years, some new vocational training programmes are being established, notably in IT and handicraft sectors. It is evident that in both the public, private and civil society sectors there is need for urgent action to mainstream human resource development and retention strategies.

Infrastructure

Despite some major drawbacks, The Gambia continues to make sustained improvement in basic infrastructure, including notably the expansion of the road network, telecommunication system, seaport and airport and the electricity and water system. Electricity is identified as the most important constraint facing formal sector firms. Power outages are frequent and the price of electricity is very high, even by African standards. A digital telephone system has been available in The Gambia since 1986. The Gambia telecommunications industry comprises a state monopoly for fixed lines (Gambia Telecommunications Company Limited [GAMTEL]) and three GSM providers (GAMCEL, AFRICELL and COMIUM). The cost of fixed line telecommunication services provided by GAMTEL is high and exceeds the regional average. At present, there are four Internet Service Providers (ISPs). They channel their internet traffic through one international data gateway owned by GAMTEL. A second gateway has been issued to a private operator GAMSAT. Some of the ISPs have wireless access infrastructure configured for high speed internet services. However, they remain handicapped by limited access to the internet gateway. GAMTEL does not provide full broadband access caused by the failure to invest in the requisite equipment, and its desire to remain the dominant provider. There were, however, plans for such investments in 2007.

Overall, the current condition of the entire road network is poor, owing to the lack of a routine and periodic maintenance culture. However, there are ongoing reconstruction works on some of

⁴ DTIS – The Gambia, July 2007

the stretches of the primary network, and plans for the reconstruction of five major regional roads are well advanced. The private sector is the dominant service provider in the road transport industry. The only public sector operator for road transport is the Gambia Public Transport Corporation (GPTC) which is slated for divestiture. Its operations are restricted to passenger transport.

The port of Banjul is located on the estuary of The Gambia River, 26 miles from the Atlantic Ocean. The river can be navigated up to 300 miles inland by sea-going vessels and further still by commercial barges, providing a cost-effective and reliable alternative to road transport. Banjul port is internationally recognized as one of the safest and most efficient ports in West Africa, offering a prompt, reliable and value-for-money service. The port's well developed facilities can handle any type of cargo, while its infrastructure, competitive tariffs, use of information technology and dedicated professional workforce ensure that the customer is always provided with the highest quality of service.

The airport can handle up to one million passengers a year and has open skies agreements with the United States of America and EU countries. It is certified as a last point of departure to the United States of America by the Federal Aviation Administration (FAA). There are direct flights from Banjul to London and Brussels and other major world destinations such as the United States of America, Frankfurt (Germany), Hong Kong, Taiwan, Japan, and South Africa can be reached via London (United Kingdom) and Brussels (Belgium) or via Dakar (Senegal) , which is 20-25 minutes by air from Banjul.

Financing

Generally, access to finance is one of the most important constraints in The Gambia. Like many countries in the subregion, The Gambia has an underdeveloped and undiversified financial sector; the financial market is dominated by a few commercial banks and poorly capitalized insurance companies. There are currently eight private, mostly foreign-owned, commercial banks and nine insurance companies. Notwithstanding the prospects for entry of additional banks, the banking system remains highly concentrated, with two large banks, Standard Chartered and Trust Bank, accounting for the bulk of the system's assets and liabilities. The commercial banks continued to invest in Treasury Bills issued by the Central Bank and short-term lending (mainly favouring re-export trade) because of the quick and risk free returns. There are also non-bank financial institutions and village savings and credit associations which provide microcredit facilities at a very small-scale to the agricultural and the informal sector.

Legal framework and public governance

The overall legal framework for business and public governance in The Gambia is largely consistent with international best practices and some important laws have been enacted recently, notably the GIPFZA 2001 and the Revised Income and Sales Tax Act 2003. An intellectual property rights law is in place, while the recently passed Competition Bill is awaiting assent by the President. A consumer protection law is however yet to be developed. There is still public concern over the administration of justice, and perceived low public and investor confidence in areas such as, accessibility, affordability, and expediency in the dispensation of justice. The absence of Legal Aid further hinders access to justice by the poor. The lack of independence of the judiciary from the executive arm of government is also a problem. The government has however put in place a Legal Sector Strategy and Action Plan (2005-2010) to reform and build institutional capacities of the judiciary and the legal sector in general. Some of these measures include the setting up of a commercial chamber in the high court to facilitate liquidation of

collateral and bankruptcy procedures. However, the three commercial court judges hold only part-time appointments. An Alternative Dispute Resolution (ADR) mechanism to assist in handling the backlog of cases has been established, and plans are underway to establish commercial courts outside the High Court.

Research and development

Generally, the level of R & D, especially in the agriculture sectors is low, and the situation is not helped by the absence of an Institute of Food Technology. However, there are specialized agencies doing specific research activities. The National Agricultural Research Institute (NARI) for instance, is mandated to conduct applied/adaptive research on crops, livestock, fisheries and natural resources. Its principal activities with respect to the crop subsector, have been in varietal screening/evaluation, seed multiplication, soil analysis and biochemistry (mycotoxin and heavy metals) analysis. In addition, NARI carries out some trials in aquaculture. The Food and Nutrition Unit also under the DoSA is involved in small-scale food processing activities. These include drying, grinding and other preservative techniques applied to cereals, fruits and vegetables. The International Trypanotolerance Centre (ITC) is a regional livestock research institution. Its mandate is to carry out breeding programmes aimed at combining the tsetse resistance traits of the Ndama cattle with the relatively high productivity virtues of other West African breeds. In addition, the centre conducts some economic and productivity research on feed and other production systems.

Food safety and quality standards

In The Gambia, the underlying capacities for standards management related to food quality and safety, both in the public and private sectors are weak. There are various crucial regulatory and risk management functions that are normally not carried out by the relevant institutions to the satisfaction of importing countries. Awareness of major standards and quality challenges is also very low at the levels of senior agricultural and trade officials, owners and managers of producing/exporting firms, and farmers who produce and handle agricultural raw materials on a day-to-day basis.

The Food Act of 2005 defines the framework for SPS standards setting and compliance. The structures, systems, and institutional arrangements required for implementation of the Act are being established. The key structures are the Food Control Advisory Board, the National Codex Committee, and the Compliance Committee. These bodies are accountable to the National Nutrition Agency, and the National Nutrition Council, headed by the Vice-President. The National Nutrition Agency is responsible for overall coordination of the food control system and hosts the National Codex Secretariat. The Food Act also defines the roles and responsibilities of the competent sectoral authorities, including the Standards and Consumer Protection Bureau (SCPB) under DoSTIE. This bureau was established five years ago, and has approximately 10 professional staff operating essentially as weights and measures inspectors. They rely on metrology equipment housed in an unsuitable laboratory affected by vibration. A standards bill has been drafted and outlines the main responsibilities of the Bureau. The water quality laboratory at the Department of Water Resources sometimes carries out for horticultural exporters some of the tests on water quality required by export customers. The NARI offers soil analysis services as well as biochemistry tests on crops and food stuff.

In-depth analysis of selected elements of the enabling environment

The investment climate

There is an increasing consensus in the literature on economic development that the quality of domestic institutions, legal frameworks and infrastructure are decisive in determining whether countries can benefit from domestic investment and FDI. The Gambia's investment climate has in recent times been a subject of assessment by internationally recognized bodies including the WB's Investment Climate Assessment (ICA), the WB's Doing Business (DB) indicators, The World Economic Forum's (WEF) Competitiveness Index and the Heritage Foundation's Index of Economic Freedom (IEF). These assessments looked at the effectiveness, efficiency and economy of key requirements for attracting investment into any country or sector, notably the policies, the legal-judicial system, taxation, infrastructure (transport, electricity, water, and telecommunications), access to land resources, and labour relations. In addition to the overall rankings, these surveys examine various components of the investment climate, and tried to ascertain the relative severity of some of the investment limiting factors from a business perspective.

Overall, The Gambia ranks favourably compared with many African countries. In the DB indicators, The Gambia is ranked 113th out of 175 countries, better than the United Republic of Tanzania and West African neighbours, notably Senegal (ranked 146th), but below some of the better-performing countries in Africa, such as Ghana, Kenya and Uganda and the improving Nigeria. In the 2004 African Competitiveness Report, The Gambia was ranked 6th out of 25 African countries. However, the Heritage Foundation's IEF ranked The Gambia less than most other neighbouring countries, with a ranking of 123 out of 157 countries, compared to Senegal at 83rd and Mali at 88th (see the table below for details).

Table 2: Selected Competitiveness Indicators - The Gambia & other African countries, 2006

	Doing Business	World Economic Forum	Heritage Foundation
The Gambia	113	102	123
Benin	137	105	117
Ghana	94	NA	105
Guinea	157	NA	126
Guinea-Bissau	173	NA	131
Kenya	83	94	95
Mali	155	118	88
Nigeria	108	101	146
Senegal	146	NA	83
The United Republic of Tanzania	142	104	94
Uganda	107	113	66
Number of countries	175	125	157

Source: DTIS, The Gambia 2007.

It is evident that the determinants of a conducive investment climate in The Gambia are at various levels of development. The legal-judiciary system is undergoing tremendous reforms in

terms of the number of legislation and regulatory frameworks put in place to guide business operation. There is however, much room for improvement with regard to enforcement. The Gambia benefits from social harmony and relative political stability. It also has a more laissez-faire tradition that contributes to the development of business. The relative ease of access to foreign exchange through the banking system is a plus, although the country is at a disadvantage with respect to the tax regime. While The Gambia levies 35 percent tax on profits, countries in the subregion e.g. Senegal, has lowered the rate to 25 percent.

Another factor that facilitates business investment in The Gambia is the efficient port of Banjul where charges used to be low while clearance usually occurs within 24 hours. The advantage is however eroding in recent years as port charges have increased, and efficiency has declined caused by inadequate maintenance of infrastructure and inflexible work practices. The customs practices including valuation procedures and speed and ease of clearance of goods through the port and beyond have similar effects on stimulating investment.

Financial services

Long term financing for productive investment is vital for economic development, but is largely unavailable in The Gambia, especially for SMEs. Various attempts to establish development banks have proved unsuccessful as the banks have suffered huge losses from non-performing loans, caused by poor management and political interference. The defunct Agricultural Development Bank is a classic example. Currently, commercial bank lending to the private sector is mostly short term, mostly in the form of Letters of Credit, and largely related to the re-export trade. The table below shows the sectoral composition of bank lending.

Table 3: The structure of sectoral lending (Percent of total new loans)

Sector	2000	2001	2002	2003	2004	2005
Agriculture	16	6	5	4	11	15
Construction	8	7	6	6	5	7
Transportation	4	6	7	12	7	6
Distributive trade	46	44	40	38	30	24
Tourism	4	4	2	3	6	3
Others including fishing & personal loans	23	32	40	37	41	45
Total	100	100	100	100	100	100

Source: DTIS, The Gambia 2007

In addition to the paucity of term-lending to the agribusiness sector, the loan interest rates are also very high (20-25 percent), while deposit rates are quite low (9-11 percent). This could be attributed to several reasons including high credit risk, inefficiencies of the financial institutions, short-term nature of deposits, and deficiencies in the legal environment. The high public domestic debt combined with restrictive monetary policy crowds out the supply of credit to the private sector, as banks enjoy higher returns on risk free investments in Treasury Bills. In 2004 Treasury Bills accounted for 40 percent of commercial banks' assets. The ongoing fiscal and monetary policy reforms have to be reinforced to minimize the public domestic debt and its effects on private sector access to finance.

The main non-bank financial institutions with lending facilities to small and medium sized enterprises include the microfinance savings and credit schemes such as National Cooperative Credit Union Gambia (NACCUG), Gambia Women Finance Association (GAWFA), Reliance Financial Services, Social Development Fund, Bayba Financial Services, GamSaving, and the Village Savings and Credit Associations (VISACA). As earlier stated, these institutions lack the financial capacity to extend big loans necessary for certain capital intensive investments. They normally provide personal and/or development loans ranging in sizes from a few thousands of dalasi to a maximum of two million dalasi. The duration is usually between one to two years, and the interest rates are above 30 percent p.a.

Infrastructure

Infrastructure (transport, energy and telecommunication) is one of the key elements of the enabling environment for business that has a great multiplier effects. The Gambia's transport system comprises networks of four main categories of roads; one main sea port (the Banjul port) and a barely active river port (Kaur); river transport almost limited to ferry services at crossing points; and one international airport (Banjul International Airport). Road transport is the dominant mode for both in-country and transboundary transportation of passengers and goods. Most of the current road network is in a poor state, and cannot be relied upon for safe and timely movement of passengers and cargo. The tariffs are relatively high caused by high vehicle maintenance cost, which also reflect on the cost of goods and services. It is hoped that when the ongoing reconstruction/rehabilitation works on some of the stretches of the primary network linking cities and towns within and beyond the borders are completed, road transport service will become efficient. River transport which has proven in the 1960s and 1970s to be a viable complement to road transport for the movement of passengers and goods is now grossly underutilized. Besides the GGC and Mouktara River Transport services which handle groundnuts and bulky merchandise respectively, river transport is restricted to ferry services at crossing points along the River Gambia. The river transport system is hampered by lack of barging equipment, siltation, and deterioration of docking facilities.

In the maritime subsector, the Gambia Ports Authority (GPA) in association with some private operators runs the port of Banjul. The GPA has in recent years made a number of improvements and expansions on the ports infrastructure aimed at developing it into a regional hub for the Europe-West Africa trade. Despite being quite efficient, mainly because of usually rapid clearance of merchandise, the port is still small in size (2 jetties, a berthing length of 750 m, and one million tonnes of cargo per year). Access to berths is limited to vessels under 15 000 tonnes. The number of vessels calling on the port of Banjul ranges between 280 and 300 per year, a little less than one per day.

Present demand for flights to/from The Gambia is insufficient on any particular route to support a scheduled service operation. Flights between European countries and The Gambia are predominantly through charter operations, with only a service from Brussels and a twice-weekly scheduled 'charter' Astraeus Airlines service from London, providing capacity for non-package travellers and little space for cargo.

Electricity is identified as the most important constraint facing firms in the industrial sector. Electricity services are available mostly in the urban and provincial centres of the rural areas with coverage of less than 25 percent. The available generation capacity is 50 Megawatt (MW) provided by the National Water and Electricity Company (NAWEC) and two other independent power providers using petroleum product as fuel. The current demand for electricity requires a generation capacity of over 80 MW, hence the frequent power outages and the high price of

electricity. The recent increase in NAWEC electricity and water tariff to 30 percent effective November 2006 has further damaged The Gambia's competitiveness relative to other African countries. Lack of investment and inadequate maintenance of the aging infrastructure have led to a progressive decline in reliability, cost effectiveness and efficiency of the state-owned company. Power losses are estimated at 35-45 percent, far above the industry norm. A rural electrification project has just been implemented in the form of stand alone systems in major rural towns. The plan is to eventually interconnect them within the national grid, which will subsequently be connected to the Senegalese and regional grids, namely the OMVG and West African Power Pool (WAPP). Such interconnectivity is expected to bring about reliability, cost effectiveness and efficiency in the energy sector, thereby stimulating the development of agro-based industry.

The telecommunications situation is far superior to electricity, although still in need of improvement in terms of reliability and costs of fixed line telecommunication services provided by GAMTEL. High speed internet services remain handicapped by limited access to the internet gateway controlled by GAMTEL, which up till now does not provide full broadband access caused by the lack of the requisite equipment. GAMTEL however plans to acquire such equipment soon.

Best practices and lessons learned

Based on the analysis presented in the previous sections, and information gathered from the consultations held with key institutions, a number of useful lessons and best practices have been compiled and are presented below. These lessons and best practices are broadly categorized under policy, legal and institutional frameworks as they impact on the development of the agribusiness sector.

At a more strategic level, the experiences gained from the implementation of The Gambia's first Poverty Reduction Strategy Paper (PRSP) have served useful lessons and therefore influenced the adoption of key policy reforms in a number of economic sectors. The government pursued the PRSP I objectives without ensuring the requisite policy and institutional framework. Furthermore, it relied on external sources for much of the resources needed to accomplish the PRSP I objectives. Unfortunately most of the anticipated external supports were only possibilities, and in cases where they were firm commitments, they came with a lot of conditionalities. Consequently, the second PRSP builds on the previous one, but strengthens its focus on the MDGs. PRSP II incorporates well defined, and time bound interventions for each MDG and proposed specific sector policies so as to avoid implementation delays.

In the agriculture sector, best practice demands that the policies promote a mixture of import substitution to ensure food security, and export promotion through effective private sector participation. The new policy orientation is therefore to promote pro-poor growth and employment in the rural sector. The specific initiatives include the expansion of both large-scale commercial producers as well as smaller producers. This will be supported by the establishment of appropriate agricultural investment financing facility. The policy shift in the agriculture sector is the realization of an unsustainable and uneconomic involvement in activities best suited for the private sector. In the crops sector, government has liberalized the provision of inputs (fertilizer) and marketing arrangements particularly for groundnut, which hitherto witnessed excessive government interference. The Gambia also learnt some useful lessons in the way she conducts business in the fisheries sector. These include the lopsided fisheries agreement with Senegal and the counterproductive incentive package (i.e. duty waivers on fuel and outboard engines) designed to attract Gambians into the artisanal subsector.

Having seen the consequences of macroeconomic instability, and being desirous to reverse the situation, The Gambia took important steps towards macroeconomic stability since 2003, geared towards controlling the fiscal deficit, curtailing money growth and inflation, and improving transparency of fiscal and monetary accounts.

As far as investment promotion and facilitation are concerned, The Gambia continues to learn lessons from the application of best practices it has adopted over the years. This involves the progressive review and adaptation of the investment incentives scheme and the formulation of policies for the liberalization of sectors (transport, energy and telecommunication) with potentially great influence on investment.

Some of the key legal reforms instituted by government in support of the enabling environment for business in general, and greater private sector-led investments in particular include:

- The Gambia Free Zones Act 2001;
- The Competition Bill 2007;
- The Income and sales tax Act 2003;
- The Telecoms Bill 2006.

In addition to the above, government has initiated a review of the judicial system with a view to strengthening its functions and restoring public confidence in its independence. A number of institutions have cropped up in recent times reflecting Gambia's orientation towards international best practices. These include the agencies, commissions and authorities set up to perform private sector friendly mandates in furtherance of the increasingly cordial PPP. Some of these institutions include GIPFZA, Gambia Divestiture Agency (GDA), National Nutritional Agency (NaNA), NADA, GRA , the National Transport Authority (NTA), the Competition Commission, just to name a few.

Conclusions and recommendations

It is evident from the above analysis that a fully enabled business environment for the development of the agribusiness sector and agro-based industry is still a dream. The statistics alone speak volumes. In a country classed as agricultural, one would expect the sector to account for a substantial proportion of the national budget, while contributing the most towards GDP. On the contrary, the 2007 agriculture budget represented about 5 percent of the total budget⁵, and the sector accounts for a third of the GDP. Generally people that are directly involved in agricultural activities happen to be the poorest in society.

The Gambia is yet to demonstrate the ideal conditions for the development of a vibrant agribusiness sector. The soils are infertile, water resources are limited, and the climate offers only a short growing season except in the few areas where irrigation is possible. In addition, the main elements of the enabling environment for agribusiness development namely, R & D, investment financing and infrastructure, are still underdeveloped and will remain so under the prevailing circumstances.

There is urgent need for a departure from the "business as usual approach" that government has towards the agriculture sector. The socio-economic importance that is often said to be associated with the sector must now be reflected, in practical terms, in the budget, the policies, strategies and above all in the sector's effective contribution to the GDP. The inherent problems associated

⁵ The Gambia, 2007 Budget notes

with factors of production (land, labour and capital) and productivity should be addressed urgently. A review of the land tenure system is long overdue. Equitable access to, and serious investments in the land resource can only happen under a credible land tenure system. Government, in partnership with the private sector, should vigorously pursue all viable opportunities that can enhance access to and affordability of investment financing to the agribusiness sector. The much talked about Agricultural Credit Bank is an option that needs to be carefully situated. Correspondingly, the commercial banks through their association should engage government in addressing the constraints posed by certain laws and regulations governing debtor-creditor relations. The research and extension services need to be revamped and extended beyond the farms, to the table. An institute of food technology readily comes to mind. Government should also devote attention to the reinforcement of local capacities (human and institutional) for the development and management of quality standards for both domestic and imported commodities.

Ghana

Ernest Aryeetey & Emmanuel Joseph Mensah

Institute of Statistical, Social and Economic Research (ISSER), University of Ghana, Legon

Executive summary

Growth in agribusiness and agro-industries in Ghana is fundamental to the process of agricultural transformation and the pursuit of the national agenda of attaining the status of an agro-based industrialized economy. Though this vision underlies much of the country's medium to long term development plans in past decades, very little has been achieved in establishing the agro-based subsectors as the growth pole of the economy. As a result, the state of agribusiness and agro-industry in Ghana is characterized by the continued dominance of smallholder private investments, similar to what is found in primary agricultural production. Even in the non-traditional agricultural export sector, where notable growth has been achieved in recent years and it is still dominated by raw to semi-processed farm outputs, small-scale producers actively participate.

For the domestic food market, surplus output of subsistence agri-food producers and cottage processing activities of farmers, either as individuals or in groups, form the backbone. The marketing and distribution of these food products however assume very complex forms, with itinerant traders dominantly intermediating between farmers and agri-food users. On the other hand, the limited number of medium to large industries involved in food processing in the country has tended to focus on the export markets, and thus mostly operate within the free zones regime. Even then, the technological base of most of these firms is low and noted to fall within the International Standard Industrial Classification (ISIC) 15 to 22 and 36 to 37 ranges.

In terms of policy, the environment for agribusiness and agro-industry is characterized by the overall environment created from and developed on the liberalization policies implemented during the SAP era. Prominent among these are the liberalized import and export sectors, the drive for FDI and export diversification, the floating exchange rate regime and the privatization of state investments in agricultural production and marketing.

Consequently, the scope for private investment in all stages of agricultural production, processing and marketing has received considerable expansion, and forms an important basis for the noted growth in non-traditional agricultural exports. Indeed, investments in and operation of agricultural businesses and processing activities in Ghana are presently private sector-led and state intervention in the subsectors is restricted to deepening capacity utilization and international competitiveness of agro-producers and allied businesses. Other major intervention programmes such as the Millennium Challenge Account (MCA), the Horticulture Export Industry Initiative (HEII), the Trade and Investment Programme for Competitive Export Economy (TIPCEE), etc. are expected to provide a further boost for agricultural infrastructure, financing and product supply.

Therefore, the environment for agribusiness and agro-industry development, relative to the situation a decade ago, has shown considerable improvement. Noteworthy is the consistent, comprehensive and increasingly competitive open trade policy that has evolved from the consolidation of the economic reform policies and the continued focus on maintaining competitiveness in international trade and finance. These policy arrangements have allowed for the continued improvement in farm income, arising mainly from both price and non-price

incentives. Specifically, the market-based exchange rate regime in place and the arrangement that allows for full control over revenue by non-traditional exporters have implied that agribusinesses are now better realizing the full value of export returns. This, most stakeholders concur, forms an important incentive stimulating the growth of the agricultural export sector. Additionally, the liberalized import and export regime have minimized price distortions created by trade taxes on agricultural products, while providing greater revenue for entry into import of agricultural commodities and inputs. Evidence from stakeholders in the agribusiness subsector suggests that this has contributed to the collapsing of cartels and to induce competition across the broad sections of agri-food marketing and distribution in the country. The growing competition between local itinerant traders and their counterparts from the subregion in the domestic food market is identified as an important indicator of this development.

The other key dimension of the enabling environment for agribusiness and agro-industry development is the continued expansion in the operations of microfinance institutions and rural/community banking. Particularly, the increasing presence of these institutions in rural communities has enhanced access to credit facilities and other banking services in most parts of the country. Loan recoveries have improved for much of these programmes, thus enhancing the sustainability and outreach of development interventions in the rural, agro-based sections of the country. The innovation that characterize the models of credit delivery used by these institutions is noted to contribute to inducing investment in post-harvest handling, preservation and processing, while engaging smallholder farmers in market trend analysis. Some of the financial services have also induced farmer group formation, which has in turn led to the incorporation of agribusiness processing groups and export firms.

These developments notwithstanding, stakeholders generally agree that important measures are required to deepen the contribution of these rural and agricultural financial service providers to the overall aspiration of nurturing a highly competitive and vibrant agribusiness and processing subsectors in the country. Suggestions emerging from such a discourse include the institution of an agricultural fund that will be specifically structured to better respond to the unique nature of agricultural investment activities. It is also suggested that the central bank should entice financial institutions to design innovative schemes for agricultural finance and insurance using market-based instruments while considering the “cooperativization” of rural and community banks so that these can better respond to the credit needs of the rural population they are expected to serve.

On the other hand, the wide network and coordination deployed by the United States Agency for International Development (USAID) in contributing to the development of a competitive export economy in Ghana, as witnessed in TIPCEE, is noted to induce the kind of institutional linkages required for the comprehensive and consistent evolution of the increasingly open and competitive environment for agribusiness and agro-industry development. While this has not developed into a formal arrangement for stringing development initiatives and policy agenda of the various ministries, departments and agencies, the model forms an important strategy that should be adapted to streamline interventions and provide a sharper focus and impact of measures for enhanced growth and development of agribusiness and agro-industry. It is reasoned that the success of such a strategy could translate into the replication of the impressive growth recorded by the non-traditional agricultural export subsector over the years.

The state of agribusiness and agro-industrial activities in Ghana

The agribusiness and agro-industrial sector in Ghana has long been identified as critical for engendering growth and transformation in agriculture - a pre-requisite for sustained development of the overall economy. Among others, national economic policy programmes since independence have envisioned the creation of a strong and robust agribusiness and agro-industrial sector as a basis for establishing the mutually-benefiting interdependence between the rural agro-based production centres and the urban industrial and service sectors. Development policy programmes in the country over the past decades have therefore consistently expressed this strategy.

Indeed, following the completion of the major phases of the economic reforms programme in the late 1980s, the National Development Policy Framework (dubbed Vision 2020) was formulated to form the basis for long term growth and development planning in the country. Within that framework, agribusiness development was identified as critical for poverty reduction and the transformation of the economy. Towards that end, the medium term policy plan derived from the Vision 2020 and implemented between 1996 and 2000, identified agribusiness and agro-industrial development as core to ensuring accelerated growth – which is itself seen as necessary for the long term goal of attaining middle-income country status by 2020. Similarly, the various phases of the Ghana Poverty Reduction Strategy programmes that followed and currently under implementation as well as the Millennium Challenge Programme of the United States of America have settled on agribusiness development as an anchor in the overall strategy of accelerating economic growth for wealth creation, poverty reduction and the pursuit of the MDGs.

Historically, Ghana is an agrarian economy. Despite a recent decline in the contribution of agriculture to national income, the sector still contributes over 36 percent of GDP and about 45 percent of foreign exchange earnings. In terms of employment, agriculture engages more than 60 percent of the country's labour force while serving as the principal production activity in the rural sector. The natural resource base of the economy, particularly land, water, the fauna and floral resources, relatively high unskilled labour supply base as well as the tropical climate provide the environment for comparatively advantageous agricultural production. It is therefore conceived that the successful transformation of such size and resource base into value-added commercial production through a well-functioning agribusiness sector would spur stable and sustained growth in industry, generate immediate competitiveness in international trade and commerce, and provide the basis for further transformation into the agro-based industrial economy. However, attaining such a feat has been very challenging for policy stakeholders in the country.

The agribusiness and agro-industry subsectors in Ghana are yet to evolve into the anticipated growth pole of the economy. The mode and conduct of business in the subsectors strongly reflect the dominance of subsistence and rudimentary nature of agricultural production in Ghana. As noted in FAO (2004), though data remain a major constraint for a rigorous analysis of developments in the subsectors, there is still sufficient basis to describe agribusiness and agro-industry as largely under-developed and artisanal. The significant achievements made in the diversification of agricultural production and exports have not sufficiently developed to attain high value production. Even for the non-traditional agricultural export sectors that have experienced impressive growth levels in recent times, value addition remains very low and largely characterized by semi-processing for domestic and export markets⁶. According to Mensah (2006), even in the free zones where agro-based manufacturing investments fall within medium to large size industry categories, much of these firms are low in technology base. Following

⁶ This is evident in the fact that even the top ten leading non-traditional exports and agricultural exports reported in Tables 4 and 5 , respectively, shows the dominance of semi-processed and raw agro-produce.

UNIDO's definition of industry technological structure, much of these firms operate within the industry category of ISIC 15-22 and 36-37.

Primarily accounting for the situation is the failure of past policy initiatives to induce higher levels of value addition and industrial processing of agricultural outputs along a much longer value chain. Rather, these initiatives have generally focused on expanding the range of raw agricultural commodities offered by Ghana to the international market, with little emphasis on high-level processing, and reasonably so because of the weak infrastructure and absence of sufficient capacity for industrial activities. Consequently, the country's exports, following over a decade of policy efforts to expand and stabilize sources of foreign exchange earnings still show considerable vulnerability to international price fluctuations. Additionally, post-harvest losses remain very high caused by the minimal progress achieved in agribusiness and processing.

At the policy front, the environment for agribusiness and agro-industry is characterized by the overall environment created from and developed on the liberalization policies implemented during the SAP era. Notably, the liberalization of the trade and exchange rate regime, fiscal and monetary policies as well as the privatization of state interest in domestic production have influenced the evolution of a sector that depends extensively on private capital with virtually no exclusive participation of state institutions. Prominently, the continued opening of the economy has boosted significant growth in non-traditional exports such as pineapple, mango, papaya and other horticultural products and the emergence of businesses to support the subsector. As observed in Danielou *et al.*, (2005) in the analysis of the rise of pineapple as a key non-traditional export commodity in Ghana, the liberalization programme has engendered the emergence of strong and competitive capacity in services such as air freight, ground handling and aviation. These have in turn responded well and contributed very much to the progress made in exploiting the country's potential in pineapple exports, especially to European markets.

Investments in and operation of agricultural businesses and processing activities is private-led while major initiatives by government, NGOs and some international development agencies have focused on deepening capacity utilization and international competitiveness of firms, though in most instances, such beneficiary firms tend to be small to medium scale agribusinesses or establishments striving to access and/ or maintain a share in domestic, regional and other international markets. As a result, many of these enterprises are farmer-based or mostly show strong local investment participation and management. Typical forms of support services provided by governmental and non-governmental institutions include farmer-training programmes on production technologies, business plan development and sourcing of investable resources, infrastructure support for post-harvest management and market linkages, among others. At present, major programmes under implementation (including the MCA, the HEII, TIPCEE, etc.) are expected to provide a further boost for agricultural infrastructure, financing and product supply, and therefore better avenues for growth in agribusiness and processing.

In relation to the domestic market, the intermediary role of market women and small-scale agribusinesses remain dominant in both the food and input supply markets. There is no formal organizational structure for food marketing and distribution in Ghana, not even for the purposes of quality control, taxation and related purposes. In urban marketing centres, association of traders and retailers serve as the common front for coordination of market activities but even then, much of the efforts are undertaken under informal arrangements, with little or no legal framework of operation. According to the industry survey data reported in MOFA (2007), most agricultural produce traded across the major ecological zones in the country are done through the open market system (which is again highly individualized and scattered) rather than through sales contract, cooperatives and other more organized forms of agri-marketing. As seen in Table 4,

staple crops that are sold on the domestic market by farmers, especially maize and cassava are dominantly sold through the open market system. And even for local agroprocessing industries that depend extensively on the domestic market for raw materials, open market avenues appear to be the most common for the purchase of inputs.

Table 4: Percentage distribution of respondents in national survey who sell farm produce through the open market

Farm product	Coastal Savannah	High rain forest	Transitional	Guinea Savannah	Sudan Savannah	National average
Maize	74.8	83.6	81.7	99.0	65.1	81.5
Cassava	66.6	89.4	67.7	51.4	24.8	67.2
Tomato	39.8	17.2	6.7	8.6	7.0	15.7
Pineapple	3.2	2.7	1.0		0.3	1.7
Pepper	44.3	20.0	8.0	29.5	14.9	21.9
Cowpea	10.8	3.6	7.7	48.6	59.0	19.9
Sorghum		0.1	4.1	72.1	82.9	23.2
Millet		0.2	0.7	68.9	72.1	20.6
Plantain	10.5	60.7	33.7	0.6	2.5	20.6
Rice	0.6	5.2	10.1	23.8	63.5	16.6
Yam	5.1	26.2	50.1	60.6	39.0	34.5
Seed Cotton		0.1	1.2	3.5	1.3	1.0
Tobacco	0.6			0.3	0.3	0.2
Oil Palm	6.1	17.0	4.8		0.3	8.2
Garden Egg	4.8	12.7	4.6			6.4
Coconut	9.9	2.8	0.5			2.6
Cocoa	4.5	11.9	1.7			5.5
Cattle	5.4	0.1	0.2	21.0	20.3	6.8
Sheep	11.5	19.3	11.6	64.4	45.7	27.0
Goats	19.7	26.6	21.2	65.4	74.0	37.0
Poultry	24.8	19.1	9.4	59.7	75.6	32.1
Pig	0.6	0.8	1.0	5.1	45.7	7.9
Grasscutter			0.2			0.0
Fish	8.0	0.4	0.2	0.3	2.5	1.7

Source: National Food and Agriculture Performance Baseline Study Survey Data, MOFA (2007)

These notwithstanding, the subsistence nature of agro-production activities in Ghana still does not allow any specific form of agro-product distribution and marketing systems to be delineated. Even for particular product lines, the structure of marketing and distribution systems for agro-produce is still observed to be very complex (Aryeetey and Nyanteng, 1999). In particular, following the near-collapse of the operations of the state food marketing institution, the mobilization of farm outputs to major marketing centres is undertaken by numerous private agents. In the more common and simple case of food market intermediation, these agents, dominated by itinerant traders, purchase foodstuffs at the farm gate and resell to retailers for onward sale to consumers. In some cases, farmers convey their own produce to secondary and sometimes even tertiary markets in an effort to obtain a better share of the retail price. For agro-inputs, the country continues to depend on the external market, thus the distribution system is characterized by very few importers who either supply through accredited agencies or other private businesses operating at the regional and district level. Further down the distribution chain are the small-scale entities (usually individuals) that retail to farmers in the rural communities. For

farmer groups, large scale agroproducers and sometimes cash crop farmers who either demand inputs in relatively large amounts or on a regular basis, wholesale supply outlets tend to represent better avenues (in terms of quality, price and reliability). Nonetheless, both the input and output markets for agriculture in Ghana suffer a low level of integration, arising mainly as a result of information asymmetry, leading to significant price differences across markets and production locations.

On the agro-industries side, policy measures targeted at attracting FDIs have culminated in growth in a number of agro-based industrial firms in the country, including a very limited number of subsidiary investments of multinational agroprocessors. These firms have maintained a strong focus on export rather than the domestic market. Most of these therefore operate under the free zones investment dispensation, where firms enjoy extensive fiscal incentives on the condition that at least 70 percent of annual production is exported. Among these investments are food, beverages, fish and sea food, fruits and other agro-based processing industries. These firms form about 30 percent of all registered manufacturing free zone firms and account for about 28 percent of total manufacturing employment in the zone (Mensah, *op. cit.*). In relation to other industrial divisions in the country, the 2003 National Industrial Census estimated that firms in the food and beverage industries accounted for about 13 percent of people employed by industry, and ranked third after wood and wood products (including furniture) and wearing apparel industries (GSS, 2006). In relation to the value of output by industry type, food products and beverage industries however rank first with about 18 percent of total output value. The census value added on the other hand indicates that agro-industry is second to metal ore mining (18 and 20 percent, respectively), which is another indication of the growing importance of agro-based industrial activities in Ghana.

At a much smaller scale, cottages in rural communities as well as other small to medium scale agroprocessors dominate the domestic market. Just like subsistence farmers, the activities of these processors are less organized and tend to occur in the informal sector. Thus, coordination for administrative purposes is weak, and even where efforts exist to organize these into groups, it occurs in the instance where such groups are receiving support from non-governmental entities or *ad hoc* associations formed usually in anticipation of support from either state or non-state development actors.

Key elements of the enabling environment for agribusiness and agro-industry development

Creating an environment conducive for the emergence and subsequent expansion of productive investment is vital for the sustained growth and development of any economy in the present-day global, competitive economic system. As a matter of fact, contemporary trends in international trade and development strongly present globalization as an inevitable phenomenon that all economies in the world must confront. The extent to which any given economy adjusts to the phenomenon depends on that system's own productive capacity and competitive strength in international trade and commerce. For developing countries in Africa, and particularly SSA, such capacity is paramount and dominantly found in agro-based investments such as in agribusiness and agroprocessing. Especially these economies tend to show extensive dependence on and immediate comparative advantage in agriculture and agro-based productive investments. Thus, the long term strategic importance of the sectors in the overall development of these economies cannot be downplayed. For agribusiness and agro-industries specifically, it is even more decisive.

However, while agriculture shares certain features with other economic sectors and therefore responds to environments generally created to spur growth in the overall economic system, the

sector also depicts certain peculiarities that makes it distinct and more responsive to specific policy instruments and growth stimuli. Consequently, to generate growth in agribusiness and agro-industry, which in turn could lead to the desired transformation of traditional agriculture into a modern economic sector, a review and good understanding of both the general and peculiar policy variables that assures the enabling environment for the development of the subsectors is required. And it is these variables that the present section explores. The idea is to review, in broad terms, some key elements of the enabling environment for agribusiness and agro-industry development in Ghana. This is done as a prelude to a discussion on two specific elements that have emerged strongly in the country's own experience with the subsectors in the recent past.

Macroeconomic and international trade policy

The significance of the macroeconomic environment for the growth and development of agribusiness and allied industry is seen particularly in the extent to which the macro-economy defines the incentive system for both private and state investments. For all economic agents, investment decisions are premised on the viability of the opportunity to utilize “investable” capital as a basis for the regeneration of asset value and to secure future income sources. Indeed, just as a government will provide road and other infrastructure investments with the expectation of boosting economic activities and thereby enhancing tax revenue, so does a subsistence agroprocessor (or any private agribusiness investor) add value to farm products with a principal motivation of enhancing income sources and securing capital for further investment. Thus, the better the incentive structure, the higher the propensity to invest and re-invest. The absence of the opportunity for capital regeneration, or, the presence of an operational environment that distorts incentives for investment is therefore a major deterrent to capital investment at all levels and scale of economic activities. And such was the hallmark of the agribusiness environment before the years of economic reforms in Ghana.

For agriculture in particular, the macroeconomic policy environment generally distorted the income incentives for agricultural production, as against urban businesses and some industrial activities. Some of these policy measures included:

- overvalued exchange rates;
- high tax regime especially targeted at agricultural exports;
- under-pricing of agricultural goods and services relative to those of non-agriculture (especially through price regulation and direct intervention of the state in agribusiness);
- import and export trade restrictions that created an environment of policy uncertainty and capacity under-utilization;
- inefficient capital market as reflected in the cost of capital and depressed agricultural and rural banking and finance, among others.

According to Donovan (1996), the fixed exchange rate regime appeared to be the most controversial policy environment that greatly influenced the under-performance of agriculture in the era preceding the policy reforms. The study explains that the operation of fixed exchange rate led to the over-valuation of the domestic currency. This consequently led to a distortion of the price incentive required for efficient allocation of resources among competing enterprises even within agriculture, particularly the tradable and non-tradable production enterprises. A major outcome of such a policy environment was the generalized loss of incentives for farm production and exports. In the instance of agricultural exports, the situation considerably accounted for the

near collapse of the sector since the high over-valuation of the exchange rate represented a heavy implicit tax on export revenue. This was besides the burden of direct taxes that prevailed.

According to the WB (1989), Ghana was among the many African economies that maintained such a regressive tax system on agriculture. Taking cocoa, a major traditional export crop in Ghana as an example, the paper estimated that the nominal producer price received by farmers, as a percentage of the world price at market exchange rates, was less than 10 percent in the years before the 1985-1986 production season and only up to about 24 percent towards the end of the stabilization phase of the Economic Recovery Programme (ERP). As a result, cocoa production and foreign exchange from agricultural exports in particular were abysmally low during that era, as “farmers responded to the decline in real producer prices by not replanting or maintaining the tree stock” (Aryeetey and Harrigan, 2000: 24).

Furthermore, the inefficient and monopolistic intermediary role of state marketing boards implied that private investments in agribusiness were effectively crowded out. Farmers continued to receive marginal prices for farm outputs as a result of price controls and the restrictive trade policies in place. Input shortages arising mainly from exchange scarcity and unfavourable import tariffs resulted in a dramatic decline in primary agriculture, with the obvious implications on the performance of agribusiness and agroprocessing. Even worse was the policy arrangement that effectively controlled prices of manufactured goods, especially at the factory level. This further contributed to the severe shortage of agricultural inputs and consumables for households, with its own adverse implications on the incentive for the production of surplus output for the market.

Consequently, even for the situation where policy stakeholders attempted to address the exchange rate imbalance through devaluation, little impact was achieved in income incentives for farmers. The overall market system was so severely distorted that exchange rate adjustment did not sufficiently translate into improvement in farm income and investment in agribusiness (Donovan, 1996). Significant stability in the macro-economy, better and more efficient agricultural input and output markets through a liberalized environment for the active participation of the private sector (reflected in the divestiture of state enterprises and the reform of the public and financial sectors, among others), alongside more open trade policies thus became necessary complements to the notion of ‘getting prices right’.

Indeed, the WB (1989) provides evidence to this development for a cross-section of African economies (including Ghana). The paper notes that agricultural production and exports in particular responded better to comprehensive policy reforms than just price incentives induced by exchange rate alignments alone. In the particular instance of Ghana, reforms in the financial sector, rehabilitation of economic and social infrastructure, the introduction of new investment codes to attract FDI (and more importantly, provide guarantee against expropriation of foreign investments), among other price and non-price policy reforms are observed to have contributed to the recovery in agricultural growth and exports. Oduro (2000) further points out that aside from the depreciation of the real exchange rate and enhanced incentives for exports, the reforms also helped increase external capital inflows. This contributed in financing the much needed imports for the productive sectors. In turn, the trend induced significant recovery in agricultural production and exports as well as industrial activities such as in the food processing and the beverage subsectors.

In effect, the balance in both price and non-price economic fundamentals, induced by the intermediation of market forces and the minimal distorting influence of state regulations and restrictive trade policies, creates an environment that stimulate the injection of private capital in agro-industry and eliminates inefficiencies imposed on the agribusiness sector by state

monopolies in the subsectors. It also ensures adequate supply of external inputs at competitive prices, an essential element for enhancing farmer productivity and efficient operation of agribusinesses. Additionally, liberalization allows for the prompt functioning of market forces, which reduce uncertainty in price and income policies and allows for a competitive response to trends in international commodity and service demands. As these policy measures were sustained and the economy further opened to the world market, the scope for agribusiness and agro-industrial activities have broadened significantly. Market demand beyond the shores of the domestic economy continues to increase in both quantity and product lines. At present, the country for instance reports an output index of 420 in food processing, up from as low as 42 in 1985. Non-traditional agricultural exports are also growing in importance as sources of foreign exchange, while cocoa production is attaining record-level outputs.

Thus, a key element of the enabling environment for agribusiness and agro-based manufacturing is improvement in the overall macro-economy and not only the price element. Such a balance in the price and non-price policy environments offer a much deeper impact on farm income and investment that enables an adequate response from the real sector. A liberalized trade regime with a stable and competitive economic setting, together, constitute a set of elements required for setting right the incentive structure for growth and development in agribusiness and agro-industry. These have proved paramount for minimizing policy uncertainty and creating an environment devoid of distortions in the incentive structure for private, competitive investments in agribusiness and agro-industry.

The importance of strong infrastructural support in the entire process of agricultural production, processing and marketing is well noted in literature. For Ghana in particular, the state of infrastructure generally, and for agriculture in particular, has also led to the elevation of this issue in most discussions bordering on agricultural transformation and the creation of an enabling environment for private sector participation in agribusiness and agro-industry development. This is reflected in the discussions leading to the formulation and implementation of the Millennium Development Compact and the country's medium term development programme (NDPC, 2006). Fundamental to the discussion is the importance of infrastructure in enabling the linkage of rural production centres to the various intermediaries in the farm product supply chain, with its consequence on cost and timely response to market demand and production trends.

Notably, unlike most developed economies where agricultural production is dominated by commercial, large scale production units, the core unit of agricultural production and supply in Ghana is smallholder farmsteads. These are scattered across a wide geographical space. These households, with average farm sizes estimated to be less than two hectares, depend extensively on rainfall and noted to account for a significant share of domestic farm supplies. To mop up the surplus output of these 'scattered' production units into commercial quantities for the market, considerable investment is required. The operational efficiency of such activity, however, depends extensively on the availability and efficiency of infrastructure and related support systems such as road and transport network, agricultural commodity handling facilities (cold storage for fish and horticultural products, for instance), market information and communication links, among others. In Ghana, these systems are either highly underdeveloped or poorly maintained, culminating in a high cost of accessing and using such facilities to deliver agricultural produce to markets and processing industries. In respect of the state of the transport infrastructure as an example, Aryeetey and Nyanteng (2006) suggest that this expenditure item alone accounts for about 70 percent of the total marketing cost in agri-food marketing in the country.

Additionally, given the perishable and bulky nature of agroproduce, inefficient infrastructural support also contribute significantly to high post-harvest losses, at the farm level and while in transit to consumer markets or industries for processing. The implication for investment is obvious and reported in low productivity caused by limited financial resources to procure adequate external inputs for production. In turn, this contributes variously to the unsustainable use of land and other natural resources, also leading to the deepening vulnerability of agro-production systems to climate change and other risk factors. Significantly, arising from the situation is the high incidence of poverty and seasonal production cycles that characterize agricultural farm households and production activities in the country.

For agribusiness and agro-industry, the implication of the high post-harvest losses, and low and unreliable supplies are reflected very much in the relative stagnation of the subsectors. Specifically, the noted constraint in infrastructure contributes a lot to the operational cost of agro-based industries and businesses (as noted above), with its implications on the efficiency and competitiveness of these investments. For instance, the cyclical nature of agricultural supply hinders capacity utilization, exploitation of scale economies and year-round operational schedule of these investments. The high cost of post-harvest handling and transportation also closely connect and worsens the prospect for expansion in agribusiness and agro-industry in the country.

Providing some theoretical assessment of the infrastructural constraint on the overall growth in African economies, Togar Napitupulu (2003) and Poulton, *et al.*, (2006) posits that these structural bottlenecks generally increase the cost of doing business and even the risk of transaction failure. For agro-based investment in particular, this is even worse given its close association with the rural sectors of these economies, where relatively low endowments in infrastructure support systems are observed. In particular, the studies note that the under-developed nature of infrastructure and service for the business of market intermediation in agriculture introduces other cost and risk factors that undermine the environment for the development of agribusiness and related subsectors. Poulton, *et al.*, (*op. cit.*) specifically identifies commodity chain coordination problems (caused by weak linkage created by the failure of other market agents to provide prompt and reasonably adequate responses along the market chain), opportunism and rent-seeking behaviour of state actors and other agents (arising largely from the intense demand for the limited facilities and services) as the three major factors that typically increase the cost and risk associated with doing business in the sector. A similar assessment is made by Westlake (2005) in respect of agri-food export competitiveness. The paper notes that the poor state of infrastructure in most agricultural exporting countries (including Ghana) increases the unit cost for marketing and processing of agricultural commodities, undermines the profitability of domestic production and reduces the sustenance of agricultural export businesses.

Indeed, the relevance of these arguments to the Ghanaian situation is particularly found in the focus of major public investments projects in the agricultural sector. Most recent examples include the Agricultural Services Subsector Investment Project (AGSSIP) and the Millennium Development Programme. It is argued that addressing these infrastructural bottlenecks in the sector will help enhance the profitability of agribusiness and agro-industry, and thereby stimulate investment for increased efficiency and competitiveness. In the present era of information and communication revolution, improving access to communication facilities for better access to market information on a timely and cost effective basis is one common strand of intervention. Similarly, stability and efficient delivery of utility services is critical for any appreciable growth in the industrial sector. As a matter of fact, water, electricity and energy form a core input base for agroprocessing activities and should receive attention in industrial policy and promotion of economic growth.

Admittedly, the development of these infrastructure services and facilities constitute a major fiscal challenge for the country. Nevertheless, the significance of adequate, reliable and cost effective infrastructure services for an enabling environment for agribusiness and processing requires the prioritization of such investments in public investment outlays.

In the realm of international trade and commerce, such infrastructural improvement conditions the operational environment for meeting the high standards required of agricultural exports (in even high profile markets such as the EU and the United States of America) while enabling agribusinesses to maintain regular contact and information base on the markets. Thus, improvements in infrastructure should contribute to deepening the competitive edge that the country has in agro-based production. This is because farmers and agro-industries in the country will then be able to better appreciate and respond to market trends in the most timely and cost effective manner. The resulting improvement in foreign exchange earnings could then provide a further basis to deploy new technologies and deepen supply capacity. Again, upgrades in road network and transport systems, which translate into efficient movement of goods, would significantly enhance the competitiveness of processing and agribusiness operations.

Land, efficient markets, tenure security and equitable access

Agriculture is a land-intensive production activity all over the world. However, in Africa and Ghana specifically, the low level of technology and capital in agricultural production makes its dependence on land even more intense. This fact, considered alongside the pace of population growth and low productivity of land in the country, induces increased demand especially for agricultural land for production. Arising from the situation is intensive land use practices that have contributed significantly to the increasing trend of fertility losses and degradation, which have in turn reflected strongly in increased vulnerability of households and agro-industries to food and raw material shortages. This situation is particularly pronounced in the northern and coastal parts of the savanna agricultural production zones of Ghana.

Farm households, the basic production unit in agriculture, also suffer considerable productivity losses as limited access to land and insecure tenure create conflicts or social tension and discourage investments in land conservation technologies. The conflagration of these factors makes land policy, especially one geared towards improving land access and efficient land use practices, core to contemporary discourses on the growth of primary agriculture (which, needless to mention, is the very basis for the existence and potential development of agribusiness and agro-industry).

In the United Nations Economic Commission for Africa's (UNECA, 2004) point of view, the state of land tenure and land use conflicts in Africa create conditions that undermine productive and sustainable use of land resources. The study argues that given the growing demand for land and the net effect of land and natural resource conflicts, effective management of these resources through sound institutional arrangements and alignment of the diverse legal frameworks for the management of land use and tenure are required to safeguard the eventual destabilization of food production systems. In the specific instance of Ghana, Blocher (2007) takes this argument further and proposes the integration of the country's customary land laws and practices into the existing statutory laws. This is viewed by the paper as a principal step towards building a system that will be devoid of the multiple, overlapping claims that dominantly characterize land conflicts in the country.

In this respect, the challenge for policy is immense and arises mainly on two grounds. First, such a solution must sufficiently respond to the test of assuring efficient, equitable and sustainable use

of land resources to engender investments in modern, commercial agriculture. Second, given the fact that smallholder farm households form the core of agricultural production in the country and tend to operate largely in the informal sector (or outside the mainstream market economy), such a solution must be crafted well enough to avoid undermining their livelihood and thereby disrupt the production base. Thus, for agribusiness and agro-industry, the formulation and execution of the afore-stated proposition require innovation that assures stable production cycles at the primary level of agricultural production. More so as this underlies any investment, capacity utilization and the eventual development of the economy's competitive advantage in the two subsectors.

Consistent with this proposition are other arguments in literature. As an example, one strand of such an argument has noted that the creation of viable land markets with strong institutions to enforce contracts and guarantee property right could be achieved without necessarily disposing of 'enduring' indigenous tenure arrangements. As reflected in the view of Scarborough *et al.*, (1992), markets offer a useful avenue for realizing efficient resource allocation without compromising the overall wellbeing of the society. In respect of engendering investment and growth in agriculture, the paper argues that markets ensure optimal resource application and simultaneously stimulate technological innovation for greater productivity gains. Thus, where policy encourages the creation of efficient land markets (without necessarily infringing on the rights of landowners to decide on whether to participate or not), the environment is created for optimal use of land resources for overall growth in agriculture. Indeed, alongside the policy environment that promotes the enforcement of contracts and respect for property right, the legislative, institutional and economic fundamentals for efficient operation of land markets and security of tenure is then established and should represent an essential element of the enabling environment for agricultural development; and through it, the development of agribusiness and agro-industry subsectors.

In Ghana (among other African economies), some studies have reported empirical dimensions to this proposition. They are described variously as the simultaneous operation of market and non-market forms of transaction in land. Specifically, in its exposition on the subject, UNECA (*op. cit.*) refers to Migot-Adholla *et. al.* (1991) and notes that while land markets are generally underdeveloped in Ghana, the growing pressure on land and commercialization of agricultural production have engendered considerable increase in transactions in land. Particularly, in cocoa production areas where pressure on agricultural land is most pronounced, the increasing sale of land has created, within the dominantly communal land tenure system, respect for private, individual land ownership. Additionally, markets for land rental and various forms of shared tenancy are reported in both cocoa and oil palm production areas. A similar trend is also observed for other agricultural production zones in the coastal savanna zone where cash crop production such as pineapple for export has taken root. In the northern sector as well, a similar trend is now emerging, especially as the traditional authorities progressively respond to the growing prospects in mango production for export.

On the grounds of other empirical evidence, UNECA (2007), Moyo (2000), and Place (2002) among other authors, have characterized such trends of transactions in land as a steady development of informal land market systems. These assert that such a market in many other African societies reflects the flexibility of customary tenure systems in responding to the increasing commercialization of agriculture and other forces of contemporary land use forms. Thus, the opportunity to better develop these markets to ensure efficiency, tenure security and ease of access to land already exist and function in most African societies, including Ghana. Policy attention focused on providing some formal definition and strengthening of the legal

underpinnings of transactions in such markets is required. It is in this that one could expect better direction, organization and enhanced performance, even as such land markets evolve.

In narrating the experience of Viet Nam on the subject, a WB (2005) report found that a fundamental factor to the noted expansion in agricultural production, which also accounts for the increased production of higher value-added crops, is the strengthening of land tenure security through policy reforms initiated in 1988. According to the WB, the reform process culminated in the passage of a Land Law in 1993, which allowed rural households to gain land use certificates. This formed an important step towards stimulating agricultural production. On the other hand, the absence of such an arrangement, and in particular, weaknesses in land markets, tenure security and ownership right underlay the stalled transformation of agriculture in Ghana. The impact on the development of agribusiness and agro-based industrial activities is noted in its continued state of under-development. Among others, the paper states that:

“Weak market institutions – often reflected the partial implementation of land laws (Uganda, Burkina Faso), the lack of full transparency in local land management decisions (Zambia) and the difficulties in gaining access to land for non-community members (Ghana) – were key constraints on the ability of all farmers, but particularly poorer farmers, to invest in their land. The lack of secure tenure and of legally recognized ownership rights, particularly for inheritance, affected poor rural women in the African countries, who often are the primary producers of foodcrops. In many African countries, improving the security of land tenure for poorer farmers will require developing formal systems that strengthen and complement customary land practices⁷” (World Bank, 2005, page 6).

Within the context of agribusiness and agro-industry development therefore, the institution of efficient land markets for improved tenure security and access, while accommodating existing local tenure arrangements that ensures equitable access to land by smallholder farmers, represent an important element of the enabling environment for agricultural growth and transformation in Ghana. Admittedly, the policy challenge here is immense but the existence of informal land markets, as documented in the instances cited above and noted to contribute to the ability of some communities and traditional leadership to respond to contemporary forces of demand for land (including commercial agriculture and extensive production practices of small-scale, resource poor farmers), already provides some basis for policy to prop up and provide the legal framework for the stable evolution of such land markets. This, indeed, is fundamental to any growth in primary agriculture and the basis for the development of agro-based industry and business in the country.

In-depth analysis of selected elements of the enabling environment

The present section analyses two key elements of the enabling environment for agribusiness and agro-industry development in Ghana. In so doing, a brief review of some relevant aspect of the country’s economic reform programme implemented between 1983 and 1995 is necessary, especially given that the environment created by that programme defined the focus and direction of subsequent policy programmes in the country and forms the basis for much of what has been achieved in the creation of the elements of the enabling environment for agribusiness and agro-industry development noted in the following sub-section.

⁷ The emphasis relate well with the preceding argument, and that of the author.

According to Aryeetey *et al.*, (2000), underlying the reforms programme executed in Ghana is the privatization of the economic sectors and the removal of all price and quantitative restrictions that effectively hindered the free interplay of market forces in the development process. The reform policies therefore allowed the determination of the exchange rate in a more competitive market environment, in place of the fixed exchange rate regime, while trade policy focused on ensuring deeper integration of the national economy into the international economic system. In that context, the government's participation in trade and commerce generally, and agribusiness and agro-based manufacturing in particular, was kept to the level of a facilitator rather than an active player, thereby providing greater scope for private investment in the various sectors of the economy.

In agribusiness and processing, the privatization of state owned enterprises (which is still on-going) ensured that the government's involvement in the sector was kept to a minimum while the monopolistic structure for food marketing in the major marketing centres experienced considerable opening over time. Consultations with leaders of agri-food retailers in the Makola market (an important retail market for agro-products in the Accra metropolitan area), for instance, suggest that entry into the trade has seen considerable expansion. An instance is that previous arrangements that allowed the cooking oil trade to exist essentially as a cartel has virtually collapsed, following the present liberal environment that allows any business interest to source cooking oil from any part of the country and sell on that market, without the explicit permission from the leadership of the association. Again, the liberalization of the import and export regime have implied that members of the association do not need to depend on a sole source of imported cooking oil, as import licenses and quota arrangements have been dismantled. Numerous actors now operate in the business, in terms of both the import and export of cooking oil, and the retailers now even have to contend with counterparts from the subregion for local supplies, with the obvious positive impact on farm income. Notably, the removal of restrictions on foreign exchange holdings and the liberalization of the exchange market alongside the reduction in trade taxes (both direct and indirect) and other policy instruments that restricted or distorted the incentive for cross-border trade have provided a further boost to the observed trend in agribusiness. A similar situation is also noted for other agro-products and even in the agro-input trade.

Further, contrary to previous arrangements, the banking and finance sectors have been liberalized. The reform programme instituted arrangements that ensured the re-capitalization of the ailing banking institutions while expanding the basis for the participation of private investment in the industry. The phenomenal rise of the operations of rural banks in the country and the noted contribution of these banks to addressing the credit needs of rural enterprises, including farm businesses, agroprocessing associations and firms, and other agribusiness activities is a sequel to these policy initiatives. The outreach of financial support programmes by state and non-state agencies has received an impressive extension, following the emergence of rural bank and non-bank financial institutions. It is worth noting here that these banks now form a core group of financial institutions around which microfinance activities in rural and resource poor communities in Ghana are organized. They are the means of channelling financial resources of major projects like the Millennium Development Programme to farmers and other target groups (GHAMFIN, 2007, MCC and GOG, 2007).

The elimination of state control on interest rate determination and credit allocations has engendered some competition in the pricing and allocation of agricultural credit. Financial institutions are now able to independently determine interest rates and sectoral credit allocations with minimal interference from state actors. More recently, the law establishing the operational mandate of the central bank has been reviewed, allowing the Bank of Ghana to exist and operate

as a public entity independent of government or any external influence, and with the principal responsibility of ensuring stability in prices while facilitating economic growth, among others. Hence, the independence in the administration of the country's monetary policy generally, and banking and finance sector in particular has received a very significant boost. It is rightly expected that these developments will impact positively on confidence in and credibility of the policy environment, which is definitely good for private investment and the development of agribusiness and agro-based manufacturing.

Indeed, following the afore-stated policy measures, the attraction of private FDI into all the productive sectors of the economy has emerged strongly as a key strategy to augment domestic private investments, develop the country's resource endowment in agriculture as well as engender an internationally competitive economic base. In this policy framework there has been an acknowledgement of the private sector as the "engine of growth". Effectively, these policy actions, among others, provide a definition for the export-led development strategy employed for pursuing the agenda of accelerated and sustained shared growth for wealth creation and poverty reduction, as articulated in the Growth and Poverty Reduction Strategy programme of the country (NDPC, 2005).

Consistent, comprehensive and increasingly competitive open trade policy – the emergence of non-traditional agricultural exports

A dominant feature of Ghana's export-led development strategy is the diversification of its export base as a means of stabilizing foreign exchange earnings and nurturing the capacity to engage in a wider range of investment activities with the rest of the world. This policy stance, pursued consistently for over two decades and within a liberal economic setting, has taken into consideration the country's past experience with an inward-oriented policy regime, the relatively small size of the economy and the existing comparative advantage the country exercises in agro-based production and trade. Significantly, the continued focus on developing and maintaining competitiveness in international trade has induced development stakeholders to maintain comprehensiveness and continuity in overall policy direction, while aligning the country's macroeconomic and trade policies to improve support to the economy and integrate it into the global economic system.

As a result, major achievements have been made in export diversification and overall growth of the economy. However, one sector that has shown strong growth potential and actually experienced significant transformation from the environment created is the non-traditional export sector, particularly horticultural exports. From a base of about \$460 million exports in 2001, the value of non-traditional exports in Ghana has increased to \$893 million in 2006, well over a 90 percent increase in export value during the five-year period (GEPC, 2007). Non-traditional agricultural exports on the other hand has grown strongly from US\$82 million to US\$177.5 million, representing more than a 110 percent increase. Non-traditional agricultural export items such as cocoa paste, prepared and frozen tuna, cocoa butter, shea nuts, cut fresh pineapples and prepared and frozen fish rank high among these exports. In fact, these products are individually ranked among the first ten leading non-traditional exports in the past financial year, as noted in Tables 5 and 6.

Table 5: Top ten non-traditional exports, 2005 – 2006

	Product	Export Value (US\$ '000)	Percentage Contribution to Non-Traditional Exports
1	Cocoa Paste	95 592	10.71
2	Veneer Sheets	77 234	8.65
3	Prepared Tuna	55 520	6.22
4	Cocoa Butter	53 059	5.94
5	Plywood	40 236	4.51
6	Frozen Tuna	39 434	4.42
7	Shea Nuts	27 249	3.05
8	Cut Fresh Pineapples	25 869	2.90
9	Other Prepared Fish	24 745	2.77
10	Other Frozen Fish	22 839	2.56
	Total	461 776	51.72

Source: Non-Traditional Export Statistics Report, 2006, Ghana Export Promotion Council (GEPC).

Again, among the ten leading processed and semi-processed non-traditional exports, cocoa paste, prepared tuna, cocoa butter, cut fresh pineapple, prepared fish and tomato paste are strongly represented and show strong growth performance (see Table 5).

Table 6: Top ten non-traditional agricultural exports, 2005 - 2006

	Product	2005 Export Value (US\$ '000)	2006 Export Value (US\$ '000)	Percentage Growth
1	Frozen Tuna	14 979	39 434	163
2	Shea Nuts	28 968	27 249	(6)
3	Other Frozen Fish	6 688	22 839	241
4	Pineapples (fresh and dried)	12 784	19 086	49
5	Yams	10 951	14 157	29
6	Cashew Nuts	5 236	11 975	129
7	Banana (fresh)	459	10 330	2 151
8	Cotton Linters	4 053	4 427	9
9	Cotton Seed	1 762	3 212	82
10	Vegetables	1 593	2 306	45
	Total	87 474	155 015	77

Source: Non-Traditional Export Statistics Report, 2006, Ghana Export Promotion Council (GEPC).

Relative to the export earnings of 2005, cocoa paste and cocoa butter grew by 226 and 59 percent, respectively. Horticultural export, which is dominated by pineapple, has also grown steadily over the past years. From 1998 to 2006, the value of horticultural export earnings has increased by 282 percent, from US\$9.77 million to US\$75.6 million. In respect of cut fresh pineapple alone, export earnings increased by US\$13.43 million in 2005 to US\$25.87 million in 2006, forming over a 90 percent increase while growth in fresh and dried pineapple export earnings reached about 50 percent over the same period, from US\$12.78 million to US\$19.09 million.

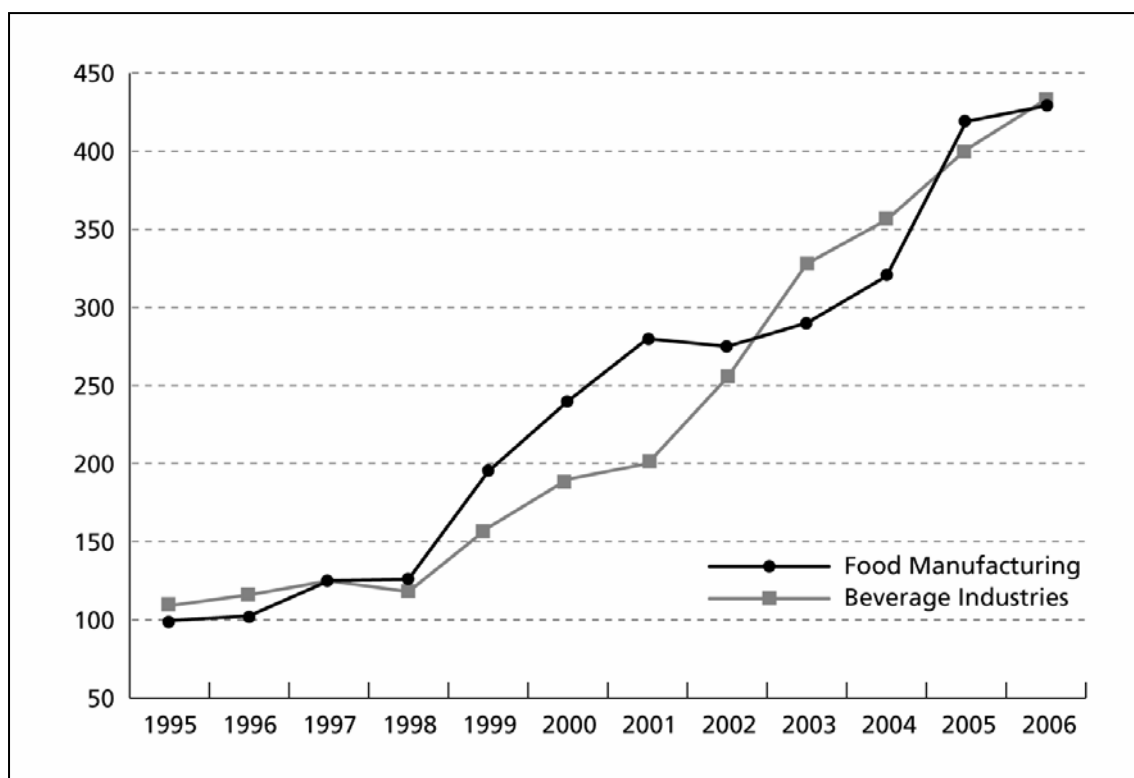
According to an industry analyst with the Ghana Export Promotion Council (GEPC), the horticultural export sector has seen a significant shift from an era of non-professional interest groups seeking an avenue to invest “petty resources” to professional, business-oriented investments that fully recognize strict adherence to efficient and effective management practices for international competitiveness. And these investments have not only been limited to

production; they cut across the broad spectrum of agri-food marketing and processing and involve both small to large scale domestic and FDI, including a multi-national agribusiness company that relocated from Cote D'Ivoire to Ghana. This, therefore, has presented the subsector in a very different light in terms of its contribution to national income formation and growth prospects.

Accounting for this development is the comprehensive and consistent focus of the country's trade policy, which has evolved over the years with the active support of the activities of international finance and development agencies and their local collaborators. Actually, while improvement in the competitiveness of the foreign exchange market is noted to have enhanced the incentive for horticultural exports, policy analysts generally concur that the overall policy for international trade and economic stability was a necessary complement to the initial efforts to realign the exchange market, and these together engendered increasing confidence in the business environment and the subsequent flow of private investment into the sector. In particular, agricultural non-traditional exports and associated businesses have experienced significant growth as a result of not only the foreign exchange policy in place, but other policy measures that have restored the incentive for export production and commercial agriculture. It is stated for instance that the combination of the prevailing market-determined exchange rate regime and the existing policy that allows exporters of non-traditional commodities to retain foreign exchange earnings without recourse to the central bank (quite contrary to earlier arrangements and even the prevailing restrictions on earnings from traditional exports) permit non-traditional exporters to benefit from the full value of each unit of export. This in itself occurs as an important incentive that accounts for the sustained use of external inputs and investment in post-harvest handling facilities by producers of these exports, relative to food crop producers for instance. For an agroprocessor consulted in the present study, aside from the foreign exchange factor, the improvement in price and wage inflation through the effective management of fiscal and monetary policy has allowed the adoption of the efficient pricing policy and stable projections, thereby contributing to stability in supply response to the market and the ability to plan on a long term basis. As an example, while international prices for most of the agroprocessor's export products remained the same since the year 2000, initial problems with production costs arising mainly from wage inflation led to quite unfavourable trends in relative prices. This implied that while the foreign exchange earnings of the industry remained the same, the profit margin continued to dwindle, and this continued only until the recent relative stability in price and wage movements.

In a recent assessment of the state of the Ghanaian economy, the Institute of Statistical, Social and Economic Research (ISSER, 2007) also reported an impressive performance of the agroprocessing subsector, specifically food processing and beverages. The study reported for instance that despite major challenges in the rise in production costs mainly from the energy crisis and the attendant disruptions in production, these subsectors showed resilience and maintained the positive growth trend recorded since 1995. As reported in Figure 3, while food processing experienced a modest increase in production output index by about 10 points between 2005 and 2006 (that is, from 419 to 420), beverages experienced about a 10 percent rise in its production index over the same period.

Figure 3. Production indices of food and beverage industries, 1995 – 2006 (1997=100)



Source: ISSER (2007)

Though these represent marginal growth levels, the difficult production settings, as well as the growing competition from the import sector, make these achievements important indicators of the increasing resilience and competitiveness of agro-industry in the country. Yet, some related subsectors such as the poultry industry have fared badly in these economic environments, as domestic production output continued to decline amidst increasing competition from imports and the rising cost of external inputs. However, many analysts identify operational inefficiency and poor production technology as the bane of the subsector.

Furthermore, the implementation of the free zones programme as a complement to the existing environment for enhancing trade competitiveness has engendered a greater response capacity of the domestic economy to changing trends in the market for non-traditional agricultural exports. In particular, some of these investments, with their resource base, experience, technology and extensive exposure to the international market, have established strong backward linkages with local supply sources using different models. These models assume both formal and informal contractual agreements and are usually facilitated by some development agencies or NGOs. In the instance of formal arrangements (such as outgrower schemes), farmers are normally contracted to produce and supply the exporting or processing firm with agro-produce. A common means adopted by most firms to consolidate this arrangement is by providing technical and financial support to the contracted producer, based on specific terms for redeeming such expenses. In other cases, certified smallholder farmers produce and sell to exporting firms under no specific agreement. These notwithstanding, the strict requirements of the international market for agro-exports imply that exporting firms interested in the output of smallholder farmers need to transfer knowledge and build the capacity of these farmers to offer 'acceptable' supplies. In so doing, these farmers acquire significant knowledge in accessing the external market and meeting

the supply requirements. In many instances, such free zones investments have also served as sources of new and improved planting materials for smallholder farmers. These, among others, then explain the exponential growth in the production and marketing of non-traditional agricultural exports observed in recent times.

While government and other non-governmental institutions have been responsive in engendering the environment that have led to these developments, a prominent model of development intervention that has significantly impacted on the non-traditional export sector is the TIPCEE model of the USAID. Consistent with the observation of Danielou *et al.*, (*op. cit.*), USAID is observed to be one of the most active development agencies that have supported the creation of the comprehensive, consistent and increasingly competitive environment for the strong growth seen in non-traditional exports. The agency, through research, capacity building and policy advocacy, supported the country's liberalization programme and particularly the formulation, implementation and assessment of the macroeconomic and trade policies. Under the TIPCEE intervention, the agency organized its activities under one umbrella, with the overall objective of achieving exponential growth in the production and marketing of Ghana's non-traditional export commodities through a broad and comprehensive array of intervention measures (TIPCEE, 2006).

These measures have been targeted at continuing with the reform of the country's policy and regulatory environment, deepening the achievements in trade and finance and sustaining the policy directions through research and policy discourse as well as the provision of direct support for capacity building across the broad spectrum of local actors in agriculture and allied activities. In the non-traditional export industry, particularly horticulture, TIPCEE collaborates with other institutions in the development of export businesses, strengthening of farmer-based organizations for the production of export commodities as well as facilitating the linkage of smallholder farmers to firms and export markets. It is also involved in improving the capacity of farmers to access loans, planting materials and other resources for production, meet production standards on the international market, develop or access facilities at the post-harvest stage to enhance agricultural marketing as well as help in the review of public policy that defines the environment for these activities and their profitability. An important note of verification is the extensive participation of TIPCEE in the implementation of the AGSSIP and the HEII of the Ministry of Food and Agriculture.

In what appears to be one of the most influential avenues for lobbying the development of agribusiness and agro-industry in Ghana, the enabling environment component of the TIPCEE model continues to link up the evolution of the policy environment for the agricultural sector with those of the finance and economic planning, trade and industry, monetary and fiscal management, labour, energy and information, communication and technology sectors by maintaining strong presence in the review, implementation and overall assessment of the sector policies and activities. Specifically, within the context and the principal goal of scaling-up the county's competitiveness in agro-based trade and industry, TIPCEE has been directly involved in the review of the current agricultural sector policy (that is, the Food and Agriculture Sector Development Policy, [FASDEP]) on a platform that allows for input from developments in other sectors while at the same time positioning the latter to accommodate the policy directions contained in the former. The result of such a high profile interaction among policy stakeholders is the formulation of a broad-based policy agenda and its pursuit towards widely communicated policy targets. The obvious synergy that emerges during the process also ensures that various actors in both the private and public sectors maintain some knowledge and ownership of the process, thereby creating the conditions for continued improvement for private investment in agriculture and agribusiness.

Under the product diversification and conversion programme, TIPCEE is also noted to be collaborating with farmer groups, agribusinesses and other institutions in enabling small, medium and large-scale agribusinesses and even agro-industries to better respond to changes in the pineapple export market by providing technical support and facilitating the distribution and cultivation of MD2 pineapple variety. Similar efforts in the papaya industry are expected to help resource poor, smallholder farmers obtain and cultivate the “golden variety”, in place of the Solo variety, as a necessary step towards responding to the changing trends in demand on the international market, and thereby help maintain international competitiveness. Needless to say, these market response strategies are fundamental to sustaining the agribusiness and agro-processing subsectors in Ghana. Some other export crops like Asian vegetables as well as food crops such as tomato, onions and maize have also been targeted under the variety diversification and conversion programme.

Worth emphasizing is the extensive nature of TIPCEE’s network of activities in contributing to the development of a competitive environment for agribusiness and agro-industry. This is made possible by the widespread and comprehensive collaborative arrangements that have been established with major public institutions such as the central bank (Bank of Ghana), the Ministry of Finance and Economic Planning, National Development Planning Commission, National Labour Commission, Ministry of Trade and Industry and President’s Special Initiative, Ministry of Food and Agriculture, Securities and Exchange Commission, Ghana Environmental Protection Agency as well as non-governmental development stakeholders including the German Development Cooperation, Association of Ghanaian Industries, WB, International Finance Corporation (IFC), the Department for International Development (DFID), United Kingdom, Danish International Development Agency (DANIDA), etc. In the instance of some ministries and public institutions, technical support from TIPCEE have included the provision of “embedded advisors” who work within the institution and actively promote policy discourse with and considerations of TIPCEE.

As a matter of fact, given the weak linkage among public institutions in the country, the TIPCEE model has served as a very important factor for the comprehensive and consistent pursuit of the country’s export-led development strategy and as a relevant basis for increasing growth and competitiveness of the economy in international trade and finance. The environment created by the series of coordinated intervention measures, combined with the direct involvement and intense focus and concentration on ensuring increasingly competitive and enabling liberal environment, have engendered the scale of private sector investment and the development of agribusiness and its allied industry. It is therefore not surprising that those non-traditional agricultural exports, especially the horticultural product value chains that received focal attention from USAID’s interventions since the post-reform era have recorded phenomenal growth in export value and FDI over the years.

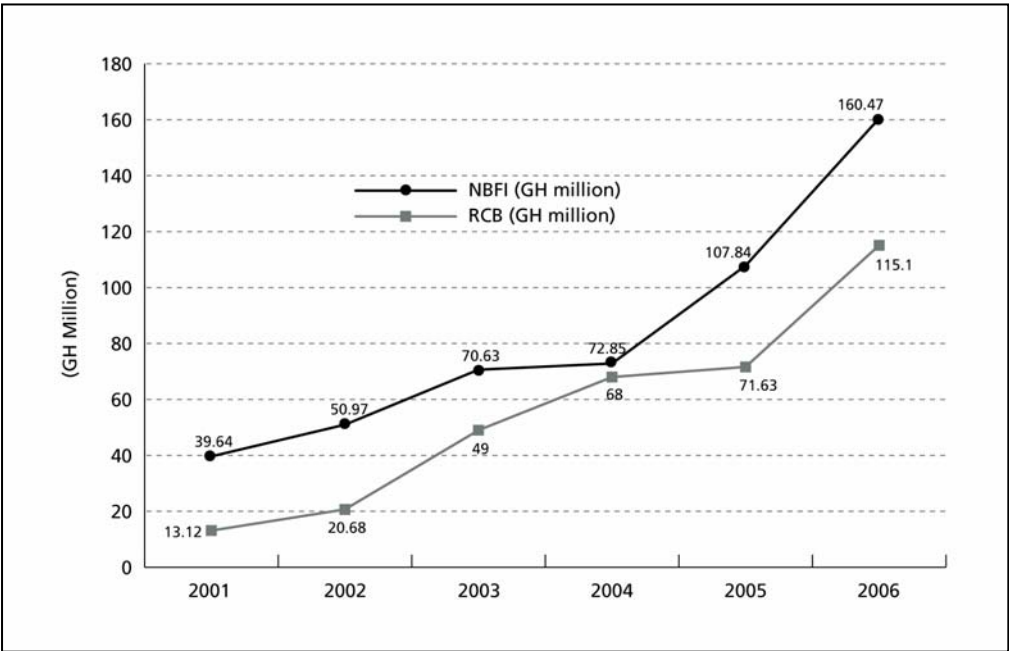
Rural and agricultural financial service delivery - increasing levels of microfinance & rural/ community banking activities

Efficient and affordable financial services are important in the development of agribusiness and agro-industry. For most developing economies however, the absence of such services has remained the dominant factor contributing to the stunted growth in these subsectors, with its adverse impact on agricultural growth and transformation. In Ghana, such was the situation until the emergence and fast expanding operations of microfinance and rural/ community banking institutions.

Following the liberalization of the financial service sector and the increasing focus of development activities on poverty and empowerment of the rural poor (especially women) over the past decade, these microcredit programmes and rural banking institutions have emerged strongly in enhancing access to credit facilities and providing more secured financial savings schemes to low-income, resource poor but productive smallholder investments and farmer cooperatives. The operational focus of these institutions has also covered private agricultural market agents and processing cottages that form the core of domestic food distribution and marketing chains in the country. Previously, access to such services was constrained largely by the high risk and low capital base of such a scale of investment in agribusinesses and processing. Collateral to secure loans from even development banking institutions such as the Agricultural Development Bank remained a key challenge, more so given the fact that the asset-base of these micro-enterprises was low. Again, the dominant tenure arrangement for land use or ownership (an important productive asset for this class of economic units) also remained largely insufficient for use in securing credit. Additionally, the financial institutions tended to locate in urban, industrial towns where formal, mostly non-agricultural working people constituted the principal clientele, thereby creating proximity problems for rural-based, small-scale agro-producers and agribusinesses. According to Asiama and Osei (2007), the operations of most of these commercial banks reached only 5 percent of households in Ghana and just about 40 percent of money supply.

However, in more recent times, increasing innovation in the provision of financial services, especially those specifically structured to meet microcredit needs of small to medium scale farmers and agribusinesses, have ensured expanded access to loans for investment purposes in the subsector. Asiama and Osei (*op. cit.*) report that from a low of ₵ (cedi, Ghanaian currency) 39.64 million credit facilities extended by Non-Bank Financial Institutions (NBFI) to low-income groups including small-scale agribusinesses and agroprocessing concerns in 2001, the microfinance resources from the NBFI reached ₵ 160.47 million in 2006, reflecting over 300 percent increase over the five-year period. The study also indicated that in 2006 rural and community banks injected over ₵ 115 million in microcredits into the dominantly rural, agro-based economies they operate in, which also represented about a 777 percent rise in the volume of resources invested in 2001, as illustrated in Figure 4.

Figure 4. Total volume of non-bank financial institutions and rural/ community bank credit allocations, 2001 – 2006



Source: Asiama and Osei, 2007

Furthermore, various financial support and credit schemes instituted by government and other institutions continue to serve as very important avenues for deepening financial service delivery to rural, agro-based economic entities. Some of these are reported in Table 7.

Table 7: Major sources of micro-loans in Ghana

	Source	Key Institutions
1.	Formal Financial Institutions	Rural and Community Banks, Non-Bank Financial Institutions, some Commercial Banks
2.	Informal Financial NGOs, Credit Unions	Sinapi Aba Trust, CARE International etc.
3.	Donor/ Government Credit Schemes	GRATIS, FUSMED, NBSSI schemes, etc.
4.	Donor-Assisted SME Loan Projects	IFAD, DANIDA, CIDA, FAO, USAID, etc.
5.	Government Funded Schemes	BAF, SIF (Microfinance Capitalization), PAF ⁸ , EDIF, MPSD & PSI Credit Schemes, MOTI, MASLOC, etc.

Source: Asiamah and Osei, 2007

According to Findings (1999), a strategic feature of such services is the group lending scheme. This scheme involves the delivery of loan packages to groups of farmers and agroprocessors, on the basis that the entire membership of the beneficiary group is jointly held liable for the servicing of the loan agreement. Given the importance attached to the social network and cultural norms in most Ghanaian societies, this scheme has succeeded mainly by inducing positive attitudes towards the repayment of the loan agreement and raising the scale of loan recovery by the microcredit financial institutions. Again, dealing with groups rather than individual farmers and agroprocessors allowed for more efficient and cost effective administration of loan facilities, as it greatly increased the ratio of clients per credit staff, extended the outreach of loan facilities and reduced the operational cost of credit per client. Furthermore, the approach afforded farmers and other agribusiness operators, who might otherwise lack information on avenues and procedures for accessing credit, the opportunity not only to obtain the much needed financial resources for investment, but also cultivate the habit of banking.

For example, according to survey results of a study on women in small-scale fish processing in the central region, Orkorley *et al.*, (1999) reported that a significant proportion of the respondents in the survey continued to depend on personal savings to finance their business activities. On the other hand, for those 14.7 percent that had obtained loans from a banking institution in the respective community, membership in a cooperative was found to be important, more so since all of these obtained the loans through such grouping. For farm businesses, such cooperatives (and similar arrangements) have also contributed immensely in the commercialization and coordination of farm activities, leading to the adoption of improved farming practices and use of inputs necessary for the production of surplus output for the market. Farmer groups and private individuals involved in agroprocessing at the cottage level are also noted to depend on such microfinance and rural banking services. In targeting the export market, this arrangement has induced the formation of farmer groups and cooperatives that have accounted for the increasing participation of smallholder farmers in agricultural exports, both the fresh and processed farm-outputs.

Indeed, Danielou (*op. cit.*) narrates a typical instance in which farmer groups in pineapple production evolved over time into a commercial pineapple export company based on merger

⁸ Now subsumed under the National Youth Employment Programme (NYEP).

arrangements among five different small-scale pineapple cooperatives and two private export firms. More interestingly, the paper reports that these farmer cooperatives emerged from over 178 smallholder pineapple farmers who were receiving financial support from a WB rural finance project. This group of individual farmers eventually gathered together and became the nucleus for the aforementioned export company. Worth noting is the fact that even at present, the farmer group continues to attract new membership while the company is achieving a steady growth in its export capacity, which has risen from 7 300 tonnes of fresh pineapple in 2004 to a target of 8 500 tonnes in 2005. In fact, the company is reckoned in the pineapple export business as one of the largest exporters in Ghana and contributing to deepening the country's competitiveness in the pineapple export value chain.

Another important dimension by which the growing activities of rural banking and microfinance institutions have supported agribusiness in the country is evident in the inventory credit scheme operated by a development agency in the country. The scheme, which revolves around the creation of innovative avenues for securing loan facilities for small-scale agroproducers, involves the formation of farmer groups to mobilize and preserve crop output during the harvest season for marketing during the lean periods. Particularly, crop farmers in groups are encouraged to treat and store produce in a common and secured warehouse, in anticipation of better prices especially towards the lean season. Based on the size and value of the produce in storage, these farmers are then assisted (at the on-set of the programme) by the development agency to access loans from available rural financial institutions, using the produce in the warehouse as collateral. As the price situation improves, farmers are then able to sell off produce at relatively better prices. The proceeds from the sale are used to pay-off the loan and the remaining amount disbursed among the membership. Significant here is the fact that the increasing presence of microfinance institutions and rural banking activities allow for the adaptation of the scheme to suit the circumstance of the farmer-group.

For agribusiness and agro-based industries, the increasing volume of investment by farmers in post-harvest handling of the produce ensures minimal losses while the timely release of the produce onto the market - based on price trends - enhances stability in the overall supply of the produce. Again, the improvement experienced in farm income represents an important incentive for surplus production by subsistence farmers for the market and a basis for greater integration of smallholder farmers into processing and agri-marketing. As pointed out by Kwadzo (2000), the scheme is noted to harness farmer productivity and income as it generates better avenues for marketing of produce and credit access, which is itself critical for the development of agribusinesses and processing in the country. In its own assessment, the agency states that the success of the programme depends primarily on the readiness of the financial institution to support the initiative and offer the needed financial assistance. As reported in findings (1998), the facilitating agency only intermediates between the farmer group and the financial institution by assuring the credit worthiness of the former, especially based on the training delivered to the group as a complement to the overall programme.

In other areas of deepening access to credit for productive investment in primary agriculture, food processing and distribution, many other governmental and non-governmental development institutions in Ghana are noted to depend extensively on the growing numbers of rural and community banks in expanding outreach and effectiveness of programme interventions. A typical example is the arrangement considered for the disbursement of financial resources to farmer-groups and agribusinesses during the implementation of the country's Millennium Development project. Hitherto, the absence of well-established, professional institutions to administer financial resources for project interventions presented considerable challenge in the successful implementation of such projects. With the increasing presence of rural/ community banks and

microfinance institutions in rural, agro-based production areas, farmers and agroprocessors even in the most remote part of the country are able to receive timely access to credit support for the intended purpose. The rate of loan recovery is also reported to have improved significantly since in most instances, responsibility for recovery of such financial assistance has also lied with the financial institution contracted to extend the resource to the beneficiaries.

Nevertheless, the absence of a well documented regulatory framework for the coordination of the activities of these institutions, especially the microfinance institutions that are operating under very informal settings, is a major source of concern. Some stakeholders consulted argue that the development potential of these institutions are being underutilized and a lot more is required to bring them up to the expected level of operational capacity and efficiency. Even for rural banks that are noted to operate in well-specified regulatory environment, the view persists that some important innovative measures are needed to invigorate their developmental impact on the country's rural economies. Aryeetey (2004) for instance argues for their "cooperativization" as a key strategy for sustaining their operations and scaling-up their impact on the rural, agro-based production sector.

In the assessment of other analysts, high interest rates and the increasing focus on non-agricultural loan portfolios by rural banks remain two key challenges that must be addressed. For example, it is suggested that loan allocations to salaried clients appear to be a much easier and cheaper avenue of revolving financial resources than credit allocations to small-scale farm-based production units. Thus, credit allocations to the latter group tends to depend so much on the availability of subsidized resources from development agents and government. Options suggested to correct for this situation include the institution of a special fund for agriculture that will be specifically structured to accommodate, among others things, the gestation periods of agricultural and agribusiness investments, the relative high risk associated with business in the sector and time-sensitivity of credit needs in the subsectors under discussion. Such a fund should also be structured to stimulate enterprise-level productivity and growth, as a basis to ensure the sustainability of the fund and scaling-up of the overall sector performance. Again, the central bank must institute market-based incentive schemes that will entice rural/ community banks and all other banks to design innovative products for agricultural finance and insurance.

Best practices and lessons learned

The assessment of the overall policy environment for the development of agribusiness and agro-based industrial activities in Ghana provided a very important basis for distilling lessons that could better inform present and future efforts at ensuring sustained and accelerated growth in income and poverty reduction. Particularly, given the continued acknowledgement of agriculture and agro-based investment activities as central for attaining the country's development agenda, such lessons allow for the institution of policy strategies necessary for guiding the evolution of a more vibrant and competitive environment for agribusiness and allied economic activities.

It is noted in the discussions above that an important posture for policy in shoring up the operational environment for agribusiness and agro-based industry development is the recognition of the increasing importance of the globalization process in contemporary economic settings and the potential it presents in new and larger markets for trade and finance. By such posture, policy must maintain a keen focus on nurturing the competitive advantage of the country in agriculture and allied businesses such as to engage the international business community in mutually beneficial trade while optimizing returns from its limited capital resources. In the process, the scale of utilization of its relatively abundant labour and natural resource endowments should also be deepened. This will entail the institution of comprehensive policy measures that will expand

the scope for the participation of private investment interests in all the sectors of the economy but particularly commercial modernized agriculture, which is a fundamental thrust, required for any advancement in agribusiness and agro-industry investment activities.

In the particular instance of Ghana, a macroeconomic and international trade policy environment that assures stability and consistent focus on deepening the incentive for private sector participation in agricultural production and marketing is paramount for engendering productivity-enhancing investments and growth in the subsectors. This view is founded on the fact that the continued dominance of smallholder farm holdings in agricultural production in the country implies that the supply base of food for agri-marketing and processing will continue to depend extensively on the size of surplus output of these units. In an environment where the price incentives are heavily distorted against agriculture, production will be heavily curtailed to only cater to the needs of the farm household, since the incentive to invest and generate surplus for the market is absent. Ultimately, agribusiness and related industry will suffer considerably, as attested to by the state of the subsector in the years preceding the economic reforms. Even for the tradable product lines, price incentives remain critical for the development of the value chain and external competitiveness.

Beyond price however, literature and discussions with stakeholders indicate clearly that non-price incentives define, in very important ways, the extent to which returns from production translate into improved farm income, which is the core resource base for sustaining the cycle of investment in farm productivity and output supply to the market and for industrial use. It also determines the extent of participation of the large number of smallholder farm households in agro-product preservation, marketing and processing at the cottage level. It is to be noted here that these farmers and cottage industries form the core base of agricultural product supply and processing, especially for the country's domestic market. The ability to entice them into value added production processes through relatively improved farm income will considerably transform agro-based production and processing in the country.

With reference to non-price incentives, the discussions above demonstrate that the liberalized regime for export and import trade (which have implied considerable reduction in taxes on agricultural exports especially), plus the floating foreign exchange market combined with the relaxed arrangement for foreign exchange holdings from non-traditional exports, have been instrumental in translating improved marketing avenues and price into enhanced income for greater investment in production, post-harvest handling and marketing facilities. In the non-traditional agricultural export sector, this environment is noted to have contributed to the dramatic growth of the sector and the continued diversification of the country's agricultural export product lines. Again, the consistent pursuit of the liberalization policies and the expanding focus on maintaining international competitiveness following the economic reforms agenda have generated considerable confidence for private FDI.

Resulting from this development, foreign investments into agribusiness and agro-industry, especially within the free zones investment regime is rapidly expanding. The economy presently hosts a major multinational agricultural enterprise and many other private investments that are involved deeply in value added agricultural production and exports. Worth pointing out is the fact that some of these investments have been instrumental in upgrading farmer-knowledge and production capacity to respond to trends on the international market through various arrangements such as contract farming and outgrower schemes. Following this, smallholder farmers involved in the production of some non-traditional export products have experienced increasing integration into the international trade system through strong linkages with major investments in agribusinesses. Some of these have also converged into farmer cooperatives at the

same time as others have evolved over time into well-performing agri-export companies in the country.

Furthermore, the growing competitiveness of the environment for agribusiness, which is also induced by the country's international trade and macroeconomic policies, has generated immense growth in the size of cross-border trade and import supply. The former effect has actually been an important basis for the growing competition in agri-marketing between local itinerant traders and their counterparts from the subregion. The latter, on the other hand, has contributed to the dissolution of cartels that operated in these markets, as noted in the anecdotal evidence provided by the leadership of some association of private individuals (retailers) in agribusiness. While some stakeholders continue to express concern about the potential damage to domestic agro-industries that such policies could have, the significant lesson to be noted in this development is the fact that a reverse policy also stifles growth in agribusiness and distorts the incentive for efficient operation of itinerant traders and agribusiness. It creates the environment for the emergence of cartels (and monopolies) and undermines access to external markets and favourable prices by local agro-producing and processing entities. A steady focus on maintaining a competitive environment for trade, domestically and with the rest of the world, is therefore crucial for sustaining the positive experience of agribusiness and agro-industry development in the country.

An important aspect of addressing this challenge and providing a comprehensive framework for nurturing the kind of environment conducive for agribusiness and investment activities in Ghana is observed in the model of intervention adopted in USAID's programme, TIPCEE. Most significantly, the focus of TIPCEE's programme components, the wide network of collaborators and the innovative approaches to lobbying public institutions into the discussion, review and implementation of policy strategies allow for the creation of institutional linkages needed for coordinating public institutions and its private partners in the development process. Among others, the deployment of Embedded Advisors in key public institutions like the Ministry of Finance and Economic Planning and the Bank of Ghana as well as other specialist in many other ministries, departments and agencies ensures that policy agenda for creating an internationally competitive environment for agriculture and its allied businesses are synchronized to attain some comprehensiveness and consistency. The extensive involvement of TIPCEE policy specialists in the assessment, review and implementation of the country's food and agriculture policy, trade and investment policy, banking and financial sector policy, etc as well as the programme's projects in agricultural trade facilitation and linkages at the grass-root makes considerable addition to ensuring policy coordination, comprehensiveness and consistency. This is noted with Ghana's agribusiness and agro-industry environment since the post-reform era, and cannot be discounted in this appraisal. It is also recorded in capacity development of farmer-based organizations in responding sufficiently to international market trends and value chain development especially in the non-traditional agricultural export sector. Needless to say, this is an important lesson and practice that must be noted and applied in engendering greater and more vibrant investment activities in the subsectors to impact the overall economy, at least as witnessed in the impressive expansion in the non-traditional agricultural exports.

The model for agricultural and rural financial service delivery in Ghana has evolved from development banking models to the present models adopted in microfinance programmes and market-based rural and community banking services. An appraisal of the situation however suggests the impressive contribution that microcredit and rural banking services are making in extending credit and other financial services to resource-poor but productive rural households and agribusinesses. The significant aspect of these models has been the enhancement made to credit recovery and overall sustainability of the interventions. In particular, the group lending schemes adopted by most of these institutions have played very well on the norms and culture of

these rural-based production units to induce new attitudes toward loan repayment and productive use of loans. It is also noted that aside from facilitating access to financial services by groups who otherwise might not know the avenues and/ or the procedures for accessing the credits, these schemes have served as important strategies for banking the hitherto 'unbankable' sections of the national economy.

Empirically, the contribution of such rural financial service delivery programmes to agribusiness and agro-industry development is recorded in the formation of a pineapple export company based on groups of farmer cooperatives. The inventory credit scheme is another important example. These cases, while acknowledging the importance of credit to the development of agriculture and its subsectors, also outline how innovative, market-based approaches to resolving problems of the sector could translate into expanding the participation of smallholder farmers and farmer groups in agricultural processing, preservation and strategic marketing for improved income and livelihood. For instance, as noted in the discussions above, an important way the inventory credit scheme contributed to improving agribusiness and agroprocessing is the incentive it created for food producers to invest in post-harvest handling of produce, and their preservation and processing while actively monitoring the supply and demand situations on the market. The overall improvement in the year-round supply of the produce and the concomitant effect on price stability by themselves add to the creation of a better environment for trade in agricultural goods and services.

Additionally, the environment for the expanded operations of microcredit and rural banking institutions is noted to contribute to extending financial resources for both state and non-state development initiatives in the country. Hitherto, most of these programmes suffered considerable delays, sometimes leading to the overall failure in attaining programme goals, particularly as a result of the absence of reliable and well-coordinated networks for extending and recovering such credits to potential beneficiaries in 'remote' parts of the country. Indeed, these realities underlie the need to optimise the developmental impact of these institutions through innovative and well-established regulatory frameworks and support arrangements that specifically address the unique features of agricultural investments such as the relatively long gestation periods and high risks associated with the sector. The challenge may be immense, but the lessons offered by developments in microfinance and rural/ community banking schemes should form a very important basis for the needed take-off.

Conclusion and recommendations

The environment for agribusiness and agro-industry development in Ghana continues to respond to policy interventions founded on the economic reforms programme implemented in the 1980s and 1990s. Specifically, the continued integration of the private sector in agricultural production and marketing, and the fast declining role of government in the same, except for the provision of capacity building programmes and related interventions, have attracted FDI and better engagement of farmers and other small to medium scale investments in the processes of agricultural growth and transformation. While this has not led to any dramatic outcome in agribusiness and processing, recent developments in the non-traditional export sectors, particularly agriculture and the growing integration of smallholder farmers into the international trade system suggest very positive growth prospects, if these policy directions are sustained.

Relevant to this process will be the sustenance of the comprehensive, consistent and coordinated support and policy advocacy activities observed in USAID's programme, TIPCEE. A review of this model clearly demonstrates how policy coordination and institutional linkages could induce better focus for development policy and practice, and the alignment of varied interests and

stakeholders to ensure better targeting and important goals such as export diversification and development of non-traditional export value chains. Underlying these has also been the sustained focus on the export-led development strategy that has formed the anchor for all efforts to strengthen the country's competitiveness in international trade. Consultations for the present study indicate sufficiently the importance of the price and non-price incentives to inducing a farmer response to market dynamics and productivity growth. The noted policy variables that impact on these incentive factors include the export and import regime, foreign exchange market and export revenue holding arrangements, macroeconomic stability and international trade and finance policy.

Additionally, growing access to financial resources through the increasing presence of rural and community banks as well as microfinance institutions in rural sectors have helped considerably in addressing the credit needs of smallholder farmers and farmer groups that form the core of food supply and agroprocessing to both the domestic and export markets. The institution of innovative models of credit delivery, especially group lending and inventory credit schemes, has ensured increasing levels of loan recovery, which in turn have contributed to the expanded reach of credit support programmes to farmers and other agricultural workers. These schemes have also contributed in instilling the habit of banking among beneficiaries. Among others, the formation of an export company based on farmer groupings induced by group lending schemes provides very important indication of the strategic importance of improved agricultural and rural financial services. Again, the active engagement of farmers in post-harvest management of crop output, processing and close monitoring of market trends induced by the inventory credit scheme for instance serves as a useful pointer to how innovation in agricultural finance could stimulate agribusiness growth and development.

To sustain these positive developments, government must adopt strong and robust mechanisms that will strengthen linkages among its institutions in all phases of policy planning, implementation and evaluation, and on the basis of a wide network of stakeholders even from the grass-root level. This is an important lesson deducted from the TIPCEE model and must be viewed as an essential aspect of sustaining the export-led development drive. On the basis of such an arrangement, the policy environment must be continuously reviewed and invigorated with new measures that instils confidence in the private sector and assures consistent focus on maintaining international competitiveness. Distorting price and non-price policy factors inhibit the translation of increased production or farm-level productivity and better market access into improved farm income. The consequent outcome will be constrained investment and growth in agricultural production and related activities. Again, as noted with the state of pineapple and poultry industries in the country, continued improvement in production technology and know-how is fundamental to improving international competitiveness and resilience to production and market shocks. In this respect, it is critical that as the state increasingly privatizes its interest from production and business of agriculture, increasing focus and priority will be given to infrastructure improvement, as well as to R & D, as core strategies for sustaining the productivity of private-sector investment in agribusiness and allied industries.

Further, the developmental impact of rural banking institutions and microfinance programmes could only be optimized if policy could induce greater levels of innovation in credit delivery to the rural sector. This challenge could be addressed through innovative, market-based financial services that induce increased allocation of credit to farm-based investments, and the central bank, as an independent entity in charge of the management of the financial sector must show the road that institutions should follow.

References

- Aryeetey, E. & Harrigan, J.** 2000. Macroeconomic and Sectoral Development Since 1970, In E. Aryeetey, J. Harrigan & M. Nissanke (eds), *Economic Reforms in Ghana –The Miracle and the Mirage*, James Currey Ltd, Oxford.
- Aryeetey, E. & Senbet, L.W.** 2004. Essential Financial Market Reforms in Africa, *Technical Publication Number 64*, Institute of Statistical, Social and Economic Research (ISSER), Accra.
- Aryeetey, E. & Nyanteng, V.** 2006. Agricultural Market Access in Ghana, *Discussion Paper Number 30*, Institute of Statistical, Social and Economic Research (ISSER), Legon, Accra.
- Asiama, J. & Osei, V.** 2007. A Note on Microfinance in Ghana, *Working Paper WP/BOG/2007/01*, Research Department, Bank of Ghana, Accra.
- Chemonics International Incorporated.** 2006. *Trade and Investment Program for a Competitive Export Economy (TIPCEE) – Third Year Work Plan for Partners*. A report produced for review by USAID, Accra.
- Danielou, M. & Ravry, C.** 2005. The Rise of Ghana's Pineapple Industry –From Successful Takeoff to Sustainable, *Africa Region Working Paper Series Number 93*, World Bank, Washington, D.C.
- Donovan, W.G.** 1996. Agriculture and economic Reform in Sub-Saharan Africa, *Environmentally Sustainable Development Division Working Paper Number 18*, World Bank, Washington, D.C.
- FAO.** 2005. Addressing Marketing and Processing Constraint that Inhibit Agri-food Exports – A Guide for Policy Analysts and Planners, by M. Westlake, *FAO Agricultural Services Bulletin Number 160*, FAO, Rome.
- FAO.** 2004. *Strengthening Farm-Agribusiness Linkages in Africa*, FAO, Rome.
- GEPC.** 2007. *Non-Traditional Export Statistics Report 2006*, Ghana Export Promotion Council, Accra.
- GHAMFIN.** 2007. *Microfinance Poverty Outreach and performance Assessment – A Study of Rural Microfinance Institutions and Government Programmes in Ghana*, a compilation by the Ghana Microfinance Institutions Network, Accra.
- GSS.** 2006. *2003 National Industrial Census Report – Phase 1 and 2 Report*, Ghana Statistical Service (GSS), Accra.
- ISSER.** 2007. *The State of the Ghanaian Economy in 2006*, Institute of Statistical, Social and Economic Research (ISSER), University of Ghana, Legon.
- Kwadzo, G.** 2000. *Inventory Credit: A Financial Product in Ghana*, a presentation at Advancing Microfinance at Rural West Africa Conference, Bamako, Mali. TechnoServe Ghana, Accra.
- Madani, D.** 1999. *A review of the role and impact of Export Processing Zones*, Development Research Group, Trade, World Bank, Washington, D.C.
- MCC & GoG.** 2007. *The Millennium Challenge Compact*, Millennium Challenge Corporation (MCC) and Government of Ghana (GoG).
- Mensah, E. J.** 2006. *Free Zones and their Economic Effects – Some Evidence from Ghana.*, Department of Economics, University of Ghana, (M.Phil. Thesis)
- Migot-Adholla, S.E., Hazel, P., Beroit, B. & Place, F.** 1991. Indigenous Land Rights Systems in sub-Saharan Africa: A Constraint on Productivity, *World Bank Economic Review*, S (1): 155 – 173.
- MOFA.** 2007. *Assessment of Agricultural Sector Performance and Food Security Status in Ghana –2005 Baseline Study*. A Consultant report submitted to the Ministry of Food and Agriculture (MOFA), Accra.
- Moyo S.** 2000. Land Reform under Structural Adjustment in Zimbabwe – Land-use Change in the Mashonaland Provinces, Uppsala, *In Land Tenure Systems and their Impacts on Food Security and Sustainable Development in Africa*, United Nations Commission for Africa (2004), Addis Ababa.

- Napitupulu, T.A.** 2003. Marketing Promotion of Agribusiness, In R. Oliver (ed), *Development of Agribusiness Enterprises*, Report of the APO Seminar on Development of Agribusiness Enterprises, Indonesia, 20 – 24 November 2000. Asian Productivity Organization (APO), Bangkok, Thailand.
- NDPC.** 2006. *Growth and Poverty Reduction Strategy 2006 – 2009*, National Development Planning Commission, Accra.
- Okorley, E., Zinnah, M.N., Obeng Mensah, A. & Owens, M.** 1999. *Women in Agro-Processing in Ghana: A case Study of the State of Women in Small-Scale Fish Smoking in the Central Region*. A collaborative Study of the University of Cape Coast, Winrock International Institute of Agricultural Development and the FAO Regional Office for Africa, Accra.
- Place, F.** 2002. Land Markets in sub-Saharan Africa – Preconditions, Potentials and Limitations, *In Land Tenure Systems and their Impacts on Food Security and Sustainable Development in Africa*, United Nations Commission for Africa (2004), Addis Ababa.
- Poulton, C., Kydd, J. & Dorward, A.** 2006. Overcoming Market Constraints on Pro-Poor Agricultural Growth, *Development Policy Review*, 24 (3), p. 234 – 277.
- Scarborough, V. & Kydd, J.** 1992. *Economic Analysis of Agricultural Markets*, Natural resources Institute, Chatham.
- UNECA.** 2004a. *Land Tenure Systems and their Impact on Food Security and Sustainable Development in Africa*, United Nations Economic Commission for Africa, Addis Ababa, Ethiopia.
- UNECA.** 2004b. *Land Tenure Systems and their Impacts on Food Security and Sustainable Development in Africa*, United Nations Commission for Africa, Addis Ababa.
- World Bank.** 2005. *Pro-Poor Growth in the 1990s – Lessons and Insight from 14 Countries*, Operationalising Pro-Poor Growth Research Programme. World Bank, Washington, D.C.
- World Bank.** 1999. Ghana: Financial Services for Women Entrepreneurs in the Informal Sector, *Africa Region Publication Number 136*, World Bank, Washington, D.C.
- World Bank.** 1998. TechnoServe in Ghana, *Africa Region Publication Number 110*, World Bank, Washington, D.C.
- World Bank.** 1989. *Ghana: Structural Adjustment for Growth*, World Bank, Washington, D.C.

Kenya

Wellington Mulwa Mulinge, Kenya Agricultural Research Institute, Nairobi

Executive summary

Kenya is predominantly an agricultural based economy. Most of its produce is consumed unprocessed or is processed using imported equipment. Kenya's agroprocessing industry is relatively well developed and has several distinct sectors for both domestic and foreign markets. These include: dairy, fish, meat, grain, fruits and vegetables, edible oils and fats, sugar, baked goods, beverages, and tobacco. The sector is capital intensive and relies heavily on imported inputs. It has experienced steady growth in the last few years (9.5 percent in 2004 alone) caused by increased demand for Kenyan goods from regional markets (i.e., exports). The promise of peace in Southern Sudan and Somalia has also created greater demand for products from Kenya.

The Kenyan economy is stable and improving. Kenya's trade policy objectives include moving towards a more open trade regime, strengthening and increasing overseas market access for Kenyan products, especially processed goods, and further integration into the world economy. Some key elements require immediate attention for accelerated economic growth and improvement of the deteriorating agribusiness environment. These include corruption, inadequate infrastructure, the poor access to finance, inefficient government bureaucracy, crime, insecurity and harmonization of tax regulations.

The Kenya Country Governance Profile (CGP), which was completed in November 2004, provides a comprehensive analysis of the major governance issues regarding accountability, transparency, stakeholder participation, legal and judicial systems, and anti-corruption programmes. The institutional support efforts by government aim at supporting fiduciary reforms in Kenya.

Kenya has maintained a stable, liberal macroeconomic policy environment for the thriving horticultural sector. Government policy has favoured foreign investment and international trade. Kenya was rated top for its business licensing reform programme that has eliminated 110 business licenses and simplified eight others. Spin-offs from Kenya's tourist industry have spurred the growth of export horticulture.

The pursuit of structural and macroeconomic reforms as well as greater transparency and predictability of existing legislation would help Kenya's transition to an outward-oriented economy and improve its ability to attract the needed foreign investment. Trade policy reform started in Kenya in the early 1990s and have had limited results. At the same time, issues of governance, labour unrest, power shortages and high utility costs have affected investors' confidence.

Recommendations include improvements of governance, infrastructure and tackling of insecurity and criminal activities.

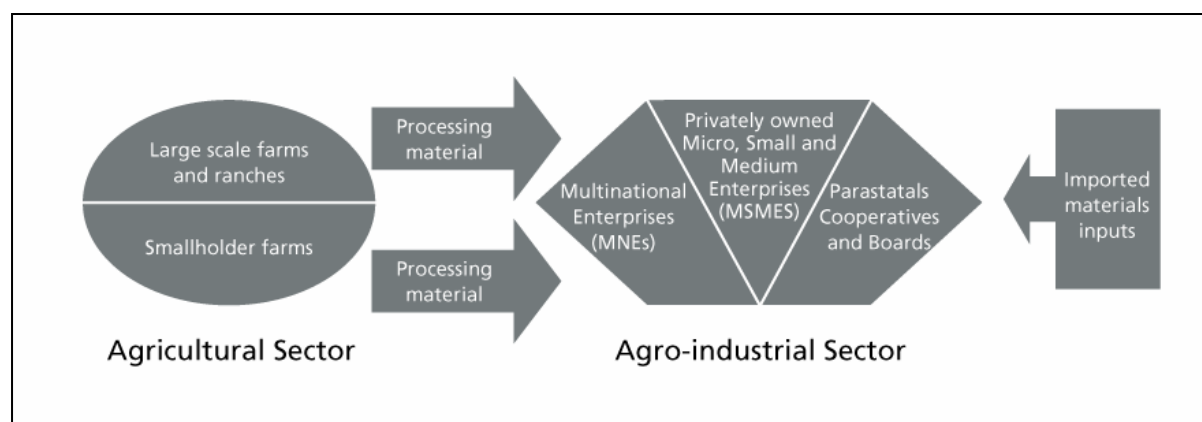
Characterization of the agribusiness sector in Kenya

Kenya is predominantly an agricultural based economy. Most of its produce is consumed unprocessed or is processed using imported equipment. The agribusiness sector can be characterized as dualist in nature. As a result, there is a small proportion of large enterprises and a large proportion of medium, small and micro-enterprises that operate parallel to each other with limited linkages. The indigenous agribusiness sector in Kenya is thus dominated by micro and small-scale enterprises (MSEs). The micro-enterprises are largely informal, operating outside the realm of legal and institutional support infrastructure.

The 1999 Baseline Survey of MSEs carried out by the Central Bureau of Statistics (CBS) shows that the sector is a significant employer and generates an estimated 13.8 percent of the country's GDP. The survey showed that there are 1.3 million MSEs, employing approximately, 2.3 million workers.

Agroprocessing is reported to be Kenya's largest manufacturing subsector, accounting for over 30 percent of total manufacturing output. The sector is capital intensive and relies heavily on imported inputs. In 2004, there were more than 1 200 businesses in Kenya's food and beverage processing industry, including small, family-owned businesses, large businesses listed on the Nairobi Stock Exchange, and subsidiaries of multinational companies. Several major multinationals have operations in Kenya, either independently or as joint ventures, including Nestle, Unilever, Cadbury, Coca Cola, Cirio Del Monte, and Wrigley. They typically supply both the domestic and export markets.

Figure 5. Kenya's agro-industrial structure



Overall demand for processing equipment for the agroprocessing and packaging sector has increased as a direct result of growth in the agricultural sector. Locally produced machinery accounts for only a very small portion of market, with nearly all advanced equipment imported. The European imports have historically dominated the market, but recently imports from Asian countries increased as a result of the low prices they charge for their equipment, especially for small-scale food processors. The amount of imported machinery has grown to US\$14.3 million in 2004 from US\$13.6 million in 2003 and US\$10.5 million in 2002.

Kenya's agroprocessing industry is relatively well developed, having several distinct sectors for both domestic and foreign markets. These include: dairy, fish, meat, grain, fruits and vegetables, edible oils and fats, sugar, baked goods, beverages, and tobacco.

Despite the agro-industrial sector's large contribution to GDP, there are problems in:

- i) Inadequate supplies of raw materials that are seasonal and of low quality.
- ii) Problems of distribution and marketing caused by poor infrastructure.
- iii) High production cost.
- iv) Slow development and implementation of policies.
- v) Use of obsolete technology and skills.

According to the WB, challenges faced by Kenya, as is the case in the majority of African countries, include:

- i) Low technical efficiency: This relates to technical transfer / technological capability, information delivery / feedback, module / behaviour of production, maintenance and repairing of production facilities and surrounding infrastructure;
- ii) Scale of manufacturing production; this has a bearing to the availability of raw materials, investment capacity / fund availability;
- iii) High transportation costs: This is caused by poor road networks/ maintenance, imperfect pursuance of contracted rules, high costs for the access of information / market intelligence, inefficient / inequitable administrative services such as licensing and tax collection;
- iv) In small-scale enterprises, poor horizontal and vertical linkages are generally observed caused by under-developed industrial structure where rates of value addition remain low.

These challenges in turn result in poor production performance in the manufacturing sector.

General characterization and assessment of key elements of the enabling environment

Investor confidence is the outcome of several factors including political and macroeconomic stability, transaction costs, security of persons and property, reliability of infrastructure, stability in policy and consistency in its implementation, efficiency of the administrative, legal and regulatory framework, and sound macroeconomic management.

Macroeconomic stability

Economic growth: The Kenyan economy is in a stable and improving position. Growth rates have been on the rise over the past four years: 3.0 percent (2003), 4.9 percent (2004), 5.8 percent (2005) and 6.1 percent (2006) (Central Bank 2006). This improved performance is partly explained by the good harvest of 2006, which increased agricultural output. However, poor infrastructure and insecurity were causing concerns.

Inflation and fiscal deficits: In 2006 the average annual underlying rate of inflation rose to 9.2 percent, having shown a steady increase over the previous two years. Inflationary pressure arising from low agricultural and manufacturing output, and the increased cost of imports, notably fuel, has driven domestic prices upwards. The appreciation of the Kenyan shilling (Ksh) against the United States dollar has aggravated this problem (in the twelve months to December 2006, the Ksh gained approximately 6 percent of its value against the Dollar).

Box 1

Over valued shilling impacts on the Tea industry

The escalating cost of fuel, electricity and labour as well as the strengthening shilling would continue to impact negatively on performance. The effects of a strong shilling, high fuel bills and rising labour costs have denied small-scale tea farmers affiliated to the Kenya Tea Development Agency (KTDA) maximum bonus earnings for this year. Though they are guaranteed Ksh17.4 billion in bonuses this year, the levels are slightly depressed by about Ksh1.4 billion compared to last year. A strong Ksh has particularly damaged the agency's fortunes resulting in an estimated loss of Ksh1.4 billion in foreign exchange earnings.

This is attributable to the fact that this year the local currency has averaged Ksh68 against the US\$ compared to the previous year's performance of Ksh76 per US\$.

Public finance: The government expenditure in 2006/07 was expected to be Ksh565.9 billion of which Ksh423.5 billion was for recurrent and Ksh142.4 billion for development account. The government raised Ksh401.5 billion (US\$6.0 billion) of which Ksh336.5 billion (US\$ 5.1 billion) was expected to be sourced from ordinary revenue and Ksh65.0 billion (US\$0.9 billion) from Appropriation-In- Aid. Overall net lending/borrowing was expected to change from a net lending of Ksh17.4 billion in 2005/06 to a net borrowing of KSh89.5 billion in 2006/07. The total public debt went up from Ksh688.0 billion in June 2005 to Ksh708.9 billion in June 2006 of which internal debt accounted for 39.2 percent.

Civil service reform: The government's public sector reform faces three key challenges. First is the bloated public service. The number of ministries, which had been reduced to 15 by the end of the 1990s, increased to 23 in 2003 and to 29 by the beginning of 2005. This reversed the trend set at the end of the 1990s and shows policy inconsistency in public service reform. The expenditures on wages and salaries still constitutes a higher share of GDP, amounting to about 9 percent in Kenya, compared to an average of 6 percent for most of the SSA countries.

Public enterprise reform and privatization programme: Progress in public enterprise reform has been extremely satisfactory. The adoption of the new privatization bill and strategy has been given priority, hence the speedy pace of transactions. The Kenya Railways Corporation was privatized through a joint concession with the Uganda Railways. Although the government has made commitment to concession of the container terminal and to convert the Kenya Ports Authority (KPA) to a landlord authority by June 2004, the options are still under study. For the Kenya Electricity Generating Company, the government offloaded 30 percent of its equity to the private sector in 2006.

State of economic development

Agriculture: This is the dominant activity of Kenya's economy, with about 70 percent of Kenyans living in rural areas and 75 percent depending on agriculture for their livelihood. The sector has been the basis for much of the country's economic growth, export earnings and employment generation, in addition to the fact that it is also the source of food security and a stimulant to the growth of off-farm employment. The sector has been constrained by several problems including (i) poor governance in key agricultural institutions, particularly the cooperative sector; (ii) failure of the private sector to fully fill up the capacity and functions previously performed by the public enterprises after liberalization; (iii) poor access to farm credit and high cost of modern farm inputs; (iv) failure to improve efficiency in agricultural production to facilitate effective competition with products from various parts of the world; (v) poor infrastructure and (vi) low budgetary allocation to the sector. Despite these problems, agriculture contributed 24.20 percent

and 25.2 percent of the total real GDP in 2005 and 2006 (Central Bank of Kenya 2006). The sector recorded a remarkable improved growth of 6.9 percent compared to a depressed growth of 1.7 percent in 2004. This was mainly caused by improved weather conditions that contributed to good performance in most subsectors such as horticulture, dairy and cereals production.

Industry: The formal manufacturing sector only accounts for 14 percent of GDP and, with the exception of the garment industry, has largely stagnated in terms of output, productivity and employment. By contrast, the small-scale informal manufacturing sector appears to have expanded rapidly and is estimated to make perhaps a fifth of GDP.

The manufacturing sector which contributes about 10.0 percent of the GDP annually grew by 6.9 percent in 2006. Value of output amounted to Ksh561.6 billion in 2006, from Ksh499.8 billion in 2005, representing a growth of 12.4 percent. Subsectors that performed well include canned vegetables, fruits, fish oils and fats, tobacco and beverages. Total sales from the EPZ enterprises rose by 4.5 percent to stand at Ksh24.8 billion in 2006, of which total exports amounted to Ksh22.4 billion. The industrial sector has been operating below its full potential caused by poor governance, poor infrastructure, high energy costs, high transactions costs, insecurity and problems in accessing foreign markets.

Tourism: This is the second most important source of foreign exchange. The sector grew by 8 percent in 1996, but registered a declining growth trend with an annual average growth rate of 3.2 percent for the period 1997-1999, and 1.5 percent in 2002. The loss of investor confidence in the tourism sector, coupled with political unrest and insecurity, the threat of terrorism, and competitive pressure from many other tourist destinations, have negatively affected performance of the sector. Tourism earnings expanded by 14.9 percent from Ksh48.9 billion in 2005 to Ksh56.2 billion in 2006. International arrivals grew by 8.2 percent from 1.5 million in 2005 to 1.6 million in 2006. The number of hotel bed-nights occupied recorded a growth of 32.3 percent, from 4 476.6 thousand bed-nights in 2005 to 5 922.1 thousand in 2006. The number of local and international conferences went up by 36.5 percent and 12.4 percent respectively in 2006. To maximize this growth trend, the government is working together with the private sector in carrying out marketing as well as in strengthening linkages between tourism and the rest of the economy.

Financial sector: Kenya has one of the most diverse financial systems in Africa, consisting of 41 commercial banks, 1 development bank, 5 development finance institutions, 2 mortgage finance companies, 3 building societies, 2 finance companies, 43 insurance companies, as well as several thousand savings and credit cooperatives (SACCOs) and a number of specialist microfinance institutions. There are also several *bureaus de change*, pension funds, collective investment schemes and securities firms. The capital market is also relatively well developed by African standards, with the Nairobi Stock Exchange being one of the most active in the region. Credit to the private sector and total deposits, both relative to GDP, are higher than in other SSA and low-income countries.

Policy environment

Kenya's trade policy objectives include moving towards a more open trade regime, strengthening and increasing overseas market access for Kenyan products, especially processed goods, and further integration into the world economy. These policy objectives have been pursued through unilateral liberalization, and regional and bilateral trade negotiations, in particular within the African region, as well as through its participation in the multilateral trading system. Several policy regimes are of particular importance to the growth and development of the agribusiness

and agro-industry in Kenya. These are: import policies, the export compensation industrialization strategy, structural adjustment policies and export promotion.

Kenya has dismantled its quantitative import restrictions and price controls on major products and tariffs are now the main trade policy instrument. The tariff structure has been rationalized, as have incentive schemes. Several public enterprises have been restructured and the influence of most agricultural boards reduced. Following three devaluations of the Kshin 1993, a managed floating exchange rate system was adopted in 1994.

Agriculture policy

The agricultural policy is spelled out in the Strategy for Revitalization of Agriculture (SRA). Increase in productivity and expansion of exports are the main objectives of the government in the agricultural sector. With these objectives, the government has evolved a comprehensive policy framework to meet its stated priorities covering production, pricing and marketing (i.e. domestic and export trade). For staple foodstuffs, the government has embarked on creating an enabling environment through gradual liberalization of the marketing system.

Import policies

Kenya's trade regime has been mostly liberalized, with the exception of a small list of import licensing controls based on health, environmental and security concerns. However, imports are still subject to some barriers to access. All imports with free on board value of more than US\$5 000 are subject to pre-shipment inspection (PSI) for quality, quantity, and price, and require a Clean Report of Findings by a government-appointed inspection agency. In June 2003, the finance minister specified that the Import Declaration fee, which includes a PSI fee, would be Ksh5 000 (about US\$66). Importers who fail to obtain inspection in advance pay a 15 percent penalty for local inspection (25 percent for motor vehicles).

Export promotion policies and incentives

In 1990, the government shifted the thrust of its economic policy to export promotion, which included fiscal based export promotion incentives. Firms operating in EPZs are exempted from all withholding taxes on dividends and other payments to non-residents during the first 10 years. They are also exempted from import duties on machinery, raw materials, and intermediate inputs. There are no restrictions on management or technical arrangements, and EPZ companies are allowed expedited licensing procedures.

The EPZ firms are allowed to sell up to 20 percent of their output in the domestic market. However, EPZ firms are liable for all taxes on products sold domestically plus a 2.5 percent penalty. There is no general system of preferential financing, although sectoral government development agencies in areas such as tourism and tea are supposed to provide funds at below-market rates to promote investment and exports.

Economic recovery strategy (ERS)

The current policy blueprint is enshrined in the Economic Recovery Strategy (ERS) for Wealth and Employment Creation, published in 2003. The ERS is a multi-faceted strategy aimed at creating policy response and addressing policy and institutional failures that previously undermined growth, equity and poverty eradication. Furthermore, the ERS's strength is manifested in its four pillars (macroeconomic stability, good governance, infrastructure development and investments in human capital), aimed at reversing the declining social and economic development.

National export strategy (NES)

In 2003 the Ministry of Trade and Industry in collaboration with the private sector, other government agencies and the development partners developed the first NES which was subsequently approved by cabinet in 2004. The need to stimulate export growth was a result of declining export growth in the years preceding the development of the NES, which is also emphasized in the ERS as key determinant for socio-economic development. The objective of the NES is to improve export performance through improved national competitiveness, value addition, improved quality and reduction of the cost of production.

The NES has identified ten priority sectors for development in the first phase of implementation. These sectors include horticulture, livestock and livestock products, fish and fish products, food and beverages, textile and clothing, commercial crafts, information and communications technology (ITC), tourism and transport services. In addition, six cross cutting issues including trade information, trade facilitation, export packaging, quality management, trade, finance and competency development have also been prioritized.

During the implementation of this strategy, the private sector is expected to play a central role through the NES Implementation Action Plan that has been developed by stakeholders. The ministry is also in the process of implementing the Private Sector Development Strategy (PSDS) which underscores the need to spur economic growth through trade expansion. The PSDS therefore recognizes and supports the implementation of the strategic objectives identified in the NES.

Multilateral, regional or preferential trading agreements

Kenya's external trade policies are designed to create an environment conducive to promoting its products in international markets, especially those of the developed countries of Europe, North America and Japan without prejudice to the promotion of intra-African trade. Trade policies are formulated with the view to speeding up Kenya's industrialization process, and in such way to make access to foreign markets easier for Kenyan products. In pursuing these objectives, Kenya has entered into multilateral, regional, bilateral and preferential trade arrangements as detailed below. Kenya is a signatory of the Lomé Convention, and a member of the African Economic Community (AEC), COMESA, EAC and Inter-Governmental Authority on Development (IGAD).

Legal and regulatory framework

To improve the legislative framework for financial management in Kenya, the government has enacted three important pieces of legislation. These are the Anti-Corruption and Economic Crimes Act (which facilitated the establishment of the Anti-Corruption Commission), the Public Officer Ethics Act (requiring the declaration of wealth by public officers) and the Public Audit Act (2004).

Trade Policies, Monopolies and Price Control Act (1988) guards against exploitation of smaller firms by larger enterprises. The Foreign Investments Protection Act (FIPA) (Cap518) guarantees repatriation of capital, after tax profits and remittance of dividends and interests accruing from investing in the country. The constitution also provides guarantee against expropriation of private property unless for security or public interest and when this happens fair and prompt compensation is paid. The sessional paper no. 2 of 2005 on "Development of Micro and SMEs for Wealth and Employment Creation for Poverty Reduction" is one of the most important current government efforts to develop the micro, small and medium enterprises sector. The Act sets policies for developing the micro, small and medium enterprises. The Licensing Laws

(Repeals and Amendment) Bill, 2006 is made to repeal certain statutes and to make minor amendments to the law relating to business licenses, and for connected purposes

Institutional framework

Trade policy formulation is the responsibility of several ministries, which constitute the cabinet's economic sub-committee, and the central bank. However, recommendations can be made by two inter-ministerial and consultative committees, which include the private sector. No independent bodies review and assess trade policies in Kenya. Trade policy is implemented mainly by the Ministry of Trade and Industry.

Trade policy implementation in Kenya is carried out mainly by the Ministry of Trade and Industry, the Customs and Excise Department of Kenya Revenue Authority, as well as the Central Bank of Kenya (CBK). There are also a number of government departments or agencies, which play a role in the implementation of trade laws in Kenya. These include the Ministry of Finance, Ministry of Agriculture and the Kenya Health Plant Inspectorate Service (KEPHIS), among others.

The Investment Promotion Centre (IPC) is a public funded institution, which was established in 1992 as a one-stop shop geared to promote investment in the country. IPC processes all applications for new investments and forwards recommendations to the Ministry of Finance and Planning for approval by the Minister. A General Authority license is issued within one month with prior approval from the relevant authority in charge of issuing the license.

EPZ's are coordinated by the Export Processing Zones Authority (EPZA). The Multilateral Investment Guarantee Agency (MIGA) issues guarantees against non-commercial risks to enterprises which invest in signatory countries. Kenya is also a member of the International Centre for the Settlement of Investment Disputes (ICSID). Other Organizations: Kenya is a member of the COMESA, EAC, the Organization of African Unity (OAU), and IGAD.

Political climate

Kenya is generally politically stable, and the country has held together despite the occasional high political temperatures. Since independence in 1963, the Kenya African National Union (KANU) dominated politics in Kenya. In 1992, political pluralism was legalised in the country leading to the emergence of several political parties and multi-party elections in 1992 and 1997, which were both won by KANU. During the third multi-party elections in December 2002, the main opposition parties together with key KANU politicians combined forces to form the National Rainbow Coalition (NARC), which won the elections. Although the 2002 elections were preceded by economic and political uncertainties, and the failure to conclude the consultations process of the highly expected new constitution for the country, the elections were, unlike the two previous ones, peacefully and fairly conducted.

The relatively fair and peaceful transition in 2002 has provided opportunity for Kenya to build on the principles of participatory democracy, political pluralism, good governance and rule of law. However, the National Constitutional Review Process has been very protracted due in part to the key issue relating to the proposed position and responsibility of the prime minister vis-à-vis an executive president. Initially, parliament was expected only to adopt or reject the draft constitution in its totality. However, in 2004, members of parliament passed the Consensus Act, giving parliament the right to amend the draft. Following the conclusion of the process of the National Constitutional Review through consensus building within the parliament in 2005, the

agreed draft constitution was presented to the people of Kenya for approval in a referendum in November of that same year.

The 2005 Kenyan constitutional referendum was held on 21 November 2005. The proposed new constitution was voted down by a 58 percent majority of Kenya's voters. The voting divided the ruling National Rainbow Coalition into camps, for and against the proposal. Caused by the high number of illiterate voters in Kenya, votes are typically cast using symbols rather than text to indicate a preferred candidate. Thus, those who supported the constitution were assigned the symbol of the banana, while the opposition were assigned the orange as their means of representation. The referendum divided Kenyans and spurred violence between Orange and Banana supporters; nine people died during the campaign period spread over several months, but the process itself was peaceful.

Governance

Poor governance in the country persists, characterized by corruption, fraud, embezzlement of public funds, inefficient public sector, weak judiciary and a poor legal framework. The lack of financial accountability and transparency has further undermined the efficient allocation of resources and results in a weakening of the government's capacity to finance poverty reduction programmes. The Kenya Country Governance Profile (CGP), which was completed in November 2004, provides a comprehensive analysis of the major governance issues regarding accountability, transparency, stakeholder participation, legal and judicial systems, and anti-corruption programmes. The issues of governance and corruption in particular were also the major focus of the Consultative Group Meeting of April 2005. Despite some notable successes in reversing the deterioration in governance in the 1990s, there are concerns that the reform implementation pace is not sufficiently vigorous to boost growth and improve service delivery. Furthermore, recent allegations of emerging corruption among some top government officials are worrying developments, which if not addressed could adversely affect Kenya's relationship with its key donors and divert attention from the implementation of much needed improvements in the public expenditure management system. In the recent public debate, some of Kenya's main stakeholders, including donors, have identified important gaps in the governance agenda, including: (i) inadequate funding of governance institutions, (ii) shortcomings in the prosecution branches; and (iii) weakness in the capacity of the judiciary sector.

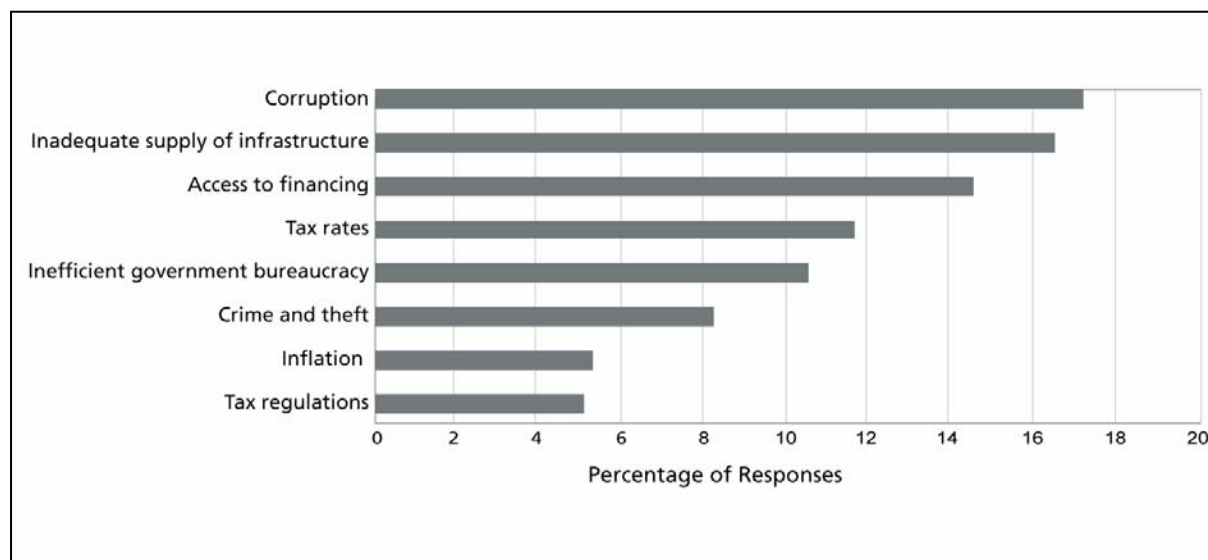
Efforts are now being made by the government and its development partners to create an enabling institutional infrastructure for good governance. The institutional support efforts by government aims at supporting fiduciary reforms in Kenya. This includes the procurement system and the auditing system. It also aims at strengthening the anti-corruption initiative of the government. Kenya has taken many bold steps to promote good governance, including the passing of several legislations, setting up of appropriate institutions, and giving them teeth to deal with anti-good governance tendencies.

The private sector also has been tainted with issues of governance; for example, irregular participation in public procurement and bribes to get business licensing are common (Transparency International, Kenya Bribery Index, 2004). This needs to be addressed. Nearly 75 percent of those interviewed for the WB Investment Climate Assessment Study (ICA, November 2004) saw corruption as a severe constraint to doing business in Kenya. In addition, governance issues include opaqueness in procurement, the persistence of the old confrontational approach in public-private relations and the spirit of competition for resources that prevail among various state departments during the national budget planning process. Steadfast implementation, including enforcement, will be key to the success of the fight against corruption.

In depth analysis of selected elements of the enabling environment

Kenya has witnessed improvement in economic growth in the last four years. However, among the factors hindering accelerated economic growth and the deteriorating business environment as indicated in Figure 6 are corruption, inadequate infrastructure, a poor access to finance, high tax rates, inefficient government bureaucracy, crime and insecurity and tax regulations. Coupled with these factors is the weak implementation of policies.

Figure 6. The most problematic factors for doing business in Kenya



Source of data: World Economic Forum 2007

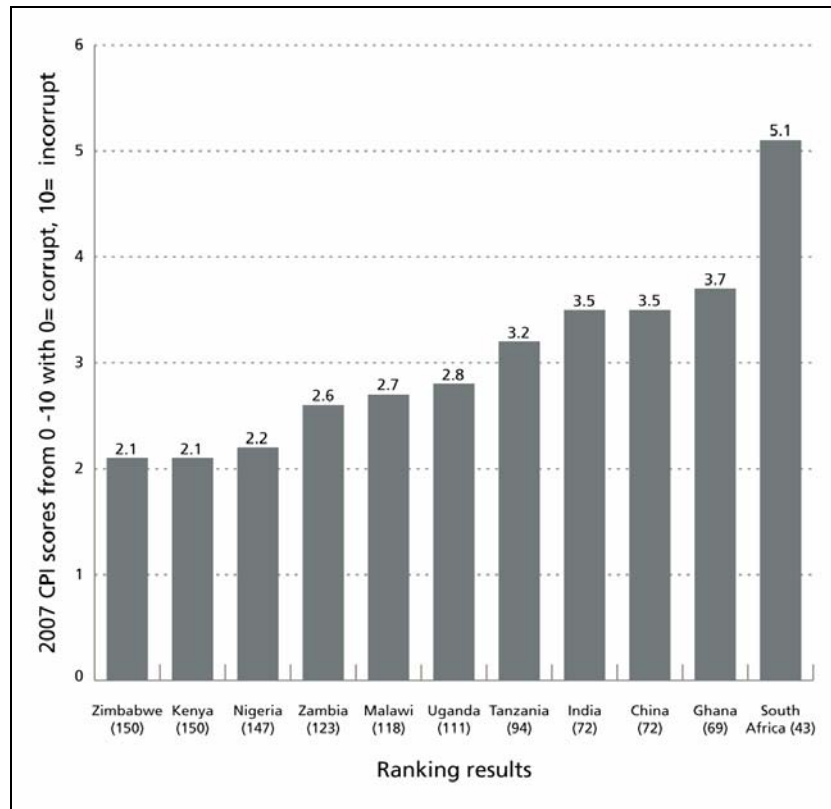
Consequently, the ability of the private sector to contribute significantly to the country's economic growth has declined, with investor confidence experiencing a downward trend. This has resulted in decelerated FDI and slow growth in local investments. In such an environment, investment plans tend to be short term at best. Indeed, significant local entrepreneurs have moved to neighbouring countries, where they have contributed to the relatively higher FDI growth rates recorded in those countries in recent times.

Following the ERS initiative, there has been some improvement. Interest rates have declined caused by restrictions on government borrowing, and there have been some efforts to address the state of poor infrastructure as well as rising crime and insecurity. While these efforts are bearing fruit, there remains much more that needs to be done to create a dynamic and competitive environment for business. In this section, the elements of enabling environment analyzed include; corruption, infrastructure, access to financing, crime and insecurity.

Corruption

Corruption has long been seen as a major impediment to attracting investment to Kenya. Various international ratings have continually placed the country at the bottom of the scale. Transparency International's Corruption Perception Index (CPI), ranked Kenya, 122nd out of 133 countries with a score of 1.9 out of 10 (where 10 is incorrupt) in 2004. Currently Kenya is ranked 150th out of 179 countries with a score of 2.1. This is a slight improvement in 2006 from 2004 results. Kenya's private sector largely mirrors the stated views that corruption is one of the biggest obstacles to growth of the economy.

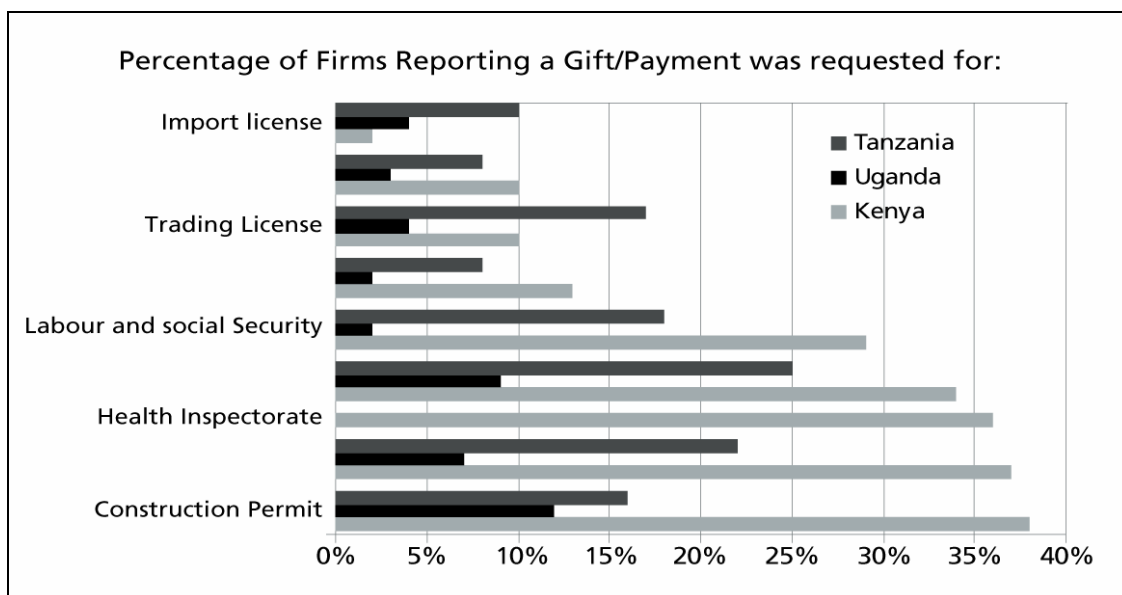
Figure 7. Corruption Perception Index (CPI), 2007



Source: Transparency International 2007 Corruption Perceptions Index 2007

In a survey of manufacturing firms, corruption was rated as a severe or major obstacle by 74 percent of the sample firms and generally seems to have the same effect on firms across the spectrum. More foreign firms, however, are seemingly more affected by corruption, as 81 percent of them rated it as a major or very severe problem.

Figure 8. Bribe requests by public agency or service, as a percentage of firms that used the service



Source: Transparency International 2007 Corruption Perceptions Index 2007

Apart from the corruption mentioned above, grand corruption is also a major problem. Unearthed graft cases include the Goldenberg scandal and the Anglo-leasing scams. The Goldenberg scandal was a political scandal where the Kenyan Government was found to have subsidized exports of gold far beyond standard arrangements during the 1990s, by paying the company Goldenberg International 35 percent more (in Kshs) than their foreign currency earnings. The scheme is estimated to have cost Kenya the equivalent of more than 10 percent of the country's annual GDP, and it is alleged that little amounts or no gold were actually exported. The Anglo-leasing scam involved plans to buy a sophisticated £20 million passport equipment system, to replace its passport printing system. Other alleged scams involved a deal to build a CID forensic laboratory and the construction of Nexus, a secret military communication centre in Karen, Nairobi.

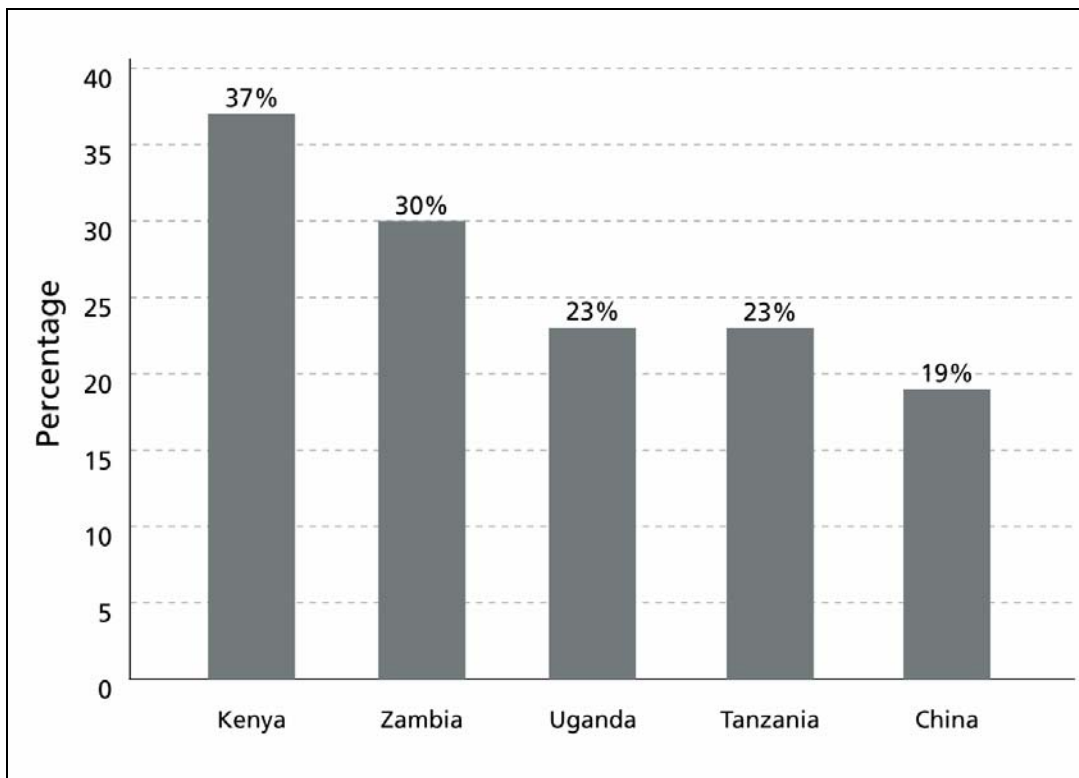
In recognition of the fact that pervasive corruption has been a major reason for disinvestment in Kenya, the government has recently taken counter measures. In 2003, the government enacted the Anti-Corruption and Economic Crimes Act and the Public Officers Ethics Act, setting rules for transparency and accountability, and defining graft and abuse of office. The Public Officers Ethics Act requires certain public officials to declare their wealth and that of their spouses within 90 days from August 2, 2003. In 2004, the government established the Anti-Corruption Commission, moved forward with the implementation of the Anti-Corruption and Economic Crimes Act, and launched full implementation of the code of Ethics Act for Public Servants in 2004. A Public Procurement and Disposal Bill became law in 2005. It establishes a procurement commission to take over all procurement matters. Large public procurement programmes and military procurement have been at the centre of a number of corruption scandals in recent years.

However, despite the establishment of the above legal and institutional reforms, the battle of tackling corruption is perceived as not yet over. The public accuses the Anti-Corruption Commission of double standard caused by its selective prosecution aimed at the “small fish” and not the “big fish”. This perception, whether true or false, has eroded the institutions credibility and public trust. The recent attempt by parliament to weaken the Anti-Corruption Commission by clipping its investigative powers was its lowest ebb. The procurement law although aimed at curbing corruption has also become a barrier to business. The law is too rigid and the long procedures make government procurement cumbersome and lengthy.

Infrastructure

Infrastructure services in Kenya are cited as extremely poor. The infrastructural services including electricity, transport, water, and telecommunications services are a major constraint to agricultural business. According to a recent ICA report (2003), Kenyan firms find transport infrastructure to be a much more serious constraint than firms in other countries. In Figure 9, while 37 percent of firms found transport a “major” or “severe” constraint to doing business in Kenya, the figure was just 23 percent in Uganda and the United Republic of Tanzania, and 19 percent in PRC.

Figure 9. Ranking Kenyan transport constraint perception against other countries



Source: ICA report 2003.

Box 2

Infrastructure

On infrastructure-related issues, power supply was perceived as unquestionably the most problematic. Power shortages have been recurrent in recent years, as in 2000, when a drought impacted severely on the predominantly hydro-based system, and have been compounded by inefficiencies and losses (of 21 percent) in transmission and distribution. Arrears from power sales have contributed to liquidity constraints. In 2002, firms reportedly experienced 33 outages, which – together with power surges – resulted in an average value in terms of lost production of 9.3 percent of total annual sales. In addition, 64 percent of firms experienced damage to equipment on account of power fluctuations and/or outages valued at as much as Ksh1.15 million (or nearly US\$15 000) per firm that year. To cope with frequent outages, the majority (70 percent) of firms owned generators, a higher percentage than in Uganda, Tanzania, Zambia or PRC, which added to the cost. Nearly 15 percent of their electricity requirements were met with these generators. Utility costs were cited by the fourth largest proportion of firms (23.6 percent) as among the top three constraints.

On road and rail, firms reported that in terms of infrastructure needs, improvements in roads is as important as upgrading electricity provision. As many as 72 percent of firms reported that roads were of “poor” or “very poor” quality, or not available at all where needed.

On telecommunications, more than two-thirds of foreign firms and 40 percent of domestic firms identified this as a severe constraint to doing business. This is in sharp contrast to neighbouring Tanzania and Uganda, where in similar surveys, telecommunications were placed last in the list of constraints, identified as such by under 6 percent of firms in Uganda. Evidence from Botswana and Zimbabwe, for instance, suggests that areas lacking telephone access see significantly less entrepreneurial activity than those with access.

*Source: Kippra- Naroibi, Africa Private Sector Group-The World Bank and CSAE- Oxford

Infrastructural barriers

Inadequate facilities and equipment in 29.4 percent of the institutions, particularly KPA, hamper the release of goods. The port of Mombasa was originally designed for a throughput of 250 000 twenty-foot container equivalents (TEUs) (TEUs are an inexact unit of cargo capacity often used to describe the capacity of container ships and container terminals). However, caused by the increased volume of exports and imports that have occurred recently and the trend toward containerisation, it is now forced to handle in excess of 400 000 TEUs (in 2002 it handled 300 000 TEUs, 2003, 386 000 TEUs and was expected to peak at 450 000 TEUs in 2004). This has tended to create serious congestion problems at the port. Further, sea to shore gantries, rubber tyre gantries, cranes, and rail mounted gantries and tugs are inadequate or poorly maintained. The likelihood of cargo getting damaged increases if faulty equipment is used. The Kenya Bureau of Standards' (KEBS) effectiveness is affected by lack of adequate and modern laboratory facilities and equipment both at its Nairobi and Mombasa offices, causing delays in service delivery. The laboratories for testing standards, such as SPS, are inadequate. Some respondents said they had to wait up to two months to obtain results of samples taken for testing.

The Kenya Railways Corporation lacks locomotives, standard wagons, refrigerated wagons and consequently importers and exporters are forced to use road transport which is more expensive. Inadequate wagons and rolling stock delay the railing of cargo from Mombasa to upcountry destinations for up to three weeks.

The road and railway infrastructure is dilapidated to meet the demands of trade. Goods are often delayed in reaching their destination caused by bad or congested roads and railway lines. This also creates security problems where stranded vehicles are prone to attacks from highway robbers. The weighing of trucks at weigh bridges also causes delays of between 6 hrs to one day. Consequently, transport services are costly and unpredictable. Using old equipment increases the chances of damage to cargo at the ports. There are also incidences of cargo loss or damage by the shipping lines.

Access to financing

As indicated earlier in this text, the financial sector in Kenya is composed by a diversified number of institutions, which include several banks, insurance companies, savinns and credit cooperatives and many other financial service providers. There are also several bureaus de change, pension funds, collective investment schemes and securities firms. The capital market is also relatively well developed by African standards, with the Nairobi Stock Exchange being one of the most active in the region. All these financial institutions thus, make Kenya one of the most diverse financial systems in Africa. Credit to the private sector and total deposits, both relative to GDP, are higher than in other SSA and low-income countries.

However, despite its diversified nature and immense development potential, the Kenyan financial system is still considered fragile, often inefficient, and provides only limited financial services to both households and businesses. The system is weak in supporting real sector activities, and thereby economic growth and poverty reduction. The Government of Kenya has, historically, been heavily involved in the provision of financial services. Such involvement has resulted in considerable misallocation and misappropriation of resources with a high fiscal cost. The financial sector is plagued by lack of competitiveness and operational inefficiency, which is reflected in high real interest rates and spreads. High interest rates constitute a major constraint to productive SME investment and job creation, and therefore to poverty reduction. Table 8 indicates that Kenya's financial system ranks poorly against that of the region and all other

countries surveyed under WB funded Investment Climate Survey. For example the number of loans requiring collateral is higher at 86 percent than the overall 80.6 percent for all countries surveyed.

Table 8: Comparison of Kenya's financial system in the region

Finance	Kenya	Region	All countries
Internal finance for investment (%)	52.66	72.99	65.87
Bank finance for investment (%)	32.40	14.12	14.78
Informal finance for investment (%)	1.52	4.42	4.79
Supplier credit financing (%)	16.70	11.88	9.01
Value of collateral needed for a loan (% of the loan amount)	180.55	144.94	140.85
Loans requiring collateral (%)	86.14	84.76	80.58

High levels of non-performing loans have contributed significantly to the inefficiency and lack of dynamism in the banking sector. Improvements have been made over the past three years. However, the banking system remains burdened by the large stock of non-performing loans (NPLs), which are heavily concentrated in state-influenced banks. Several private banks (including some foreign-owned banks) also carry large amounts of NPLs on their balance sheets. The large volume of NPLs was attributable to, among other factors, poor governance and corruption, weak and inconsistent bank supervision, poor lending skills in many banks, and the generally adverse climate for the enforcement of creditor rights in the 1980s and 1990s.

The Kenyan government has been trying to undo the damage through legal and institutional reform. The parliament amended the Banking Act 2004 to delegate the power to register and deregister commercial banks and financial institutions from the finance minister to the CBK. Under the Central Bank of Kenya Act, the security of tenure for the governor was enhanced, the Bank's operational autonomy was increased, the CBK's bank supervision functions were strengthened, and statutory restrictions on government borrowing from the bank were codified. The CBK sets requirements for all banking institutions and building societies to disclose their un-audited financial results on a quarterly basis by publishing them in the print media.

The Central Bank of Kenya Act was also amended in December 2004 to establish an independent Monetary Policy Advisory Committee that was mandated to advise on monetary policy. The amended Act provides for the CBK to publish the lowest interest rate it charges on loans to banks referred to as the "central bank rate". Other amendments transferred powers to revoke and issue licenses to financial institutions from the ministry of finance to the CBK and introduced an "in Duplum Rule," which limits fees and fines on non-performing loans to the amount of the outstanding principal.

Crime and security

Crime and insecurity were ranked as the two leading obstacles to business. Crime and insecurity continue to reflect negatively on Kenya as a business destination. Although crime manifests itself in several ways, the major concerns within the private sector include highway robberies, carjacking, muggings, armed robberies and household break-ins, to name a few. At risk are the physical security considerations of business persons, their families and staff, and indeed all Kenyans.

Kenya has a good relationship with all its immediate neighbours. However, unstable, porous or conflicted borders are also a source of insecurity in the region. The 2002 terrorist⁹ attacks in Mombasa are thought to have been planned in Somalia and much of the small arms used in crime in Kenya most likely originate from Somalia. The level of urban crime in Kenya is one of the highest in Africa. According to the WB, almost 70 percent of investors reported "major" or "very severe" concerns about crime, theft and disorder in Kenya, as opposed to 25 percent in the United Republic of Tanzania and 27 percent in Uganda.

The government does acknowledge its primary responsibility of ensuring security of persons and property. In a clear demonstration of this, an extensive reform programme is already taking place within the police force, complemented by supplementary security approaches that involve the citizens in fighting crime¹⁰. The private sector has also seen rapid growth in the provision of private security. Other initiatives include the reforms under the Governance, Justice, Law and Order Sector (GJLOS) Reform Programme, which is aimed at strengthening the judiciary and all institutions concerned with the upholding of law and order. However, Kenyan policing could still benefit from widespread application of modern technology, including ITC. The use of Close Circuit Television (CCTV) is becoming an important security tool in Nairobi and should be replicated around the country.

Box 3

Security concerns in Kenya

The Kenyan authorities must seriously address the increasing rate of crime that is scaring away investors and could end up weakening Nairobi's position as the hub of international organizations in the region. It is not a laughing matter that the latest UN-Habitat report on urban safety and security, groups Kenya among the most insecure countries in the world such as Brazil, Guatemala, Honduras and South Africa, where gang violence rules the day. In particular, the shadowy Mungiki militia, which is yet to be fully contained, is a major concern.

Source: East African (Nairobi) Editorial, 9 October 2007

⁹ On August 7, 1998, bombs exploded at the United States of America embassies in Nairobi and Dar es Salaam killing over 200 and wounding more than 5 000 people. A suicide bomber killed 15 people in an Israeli-owned Mombasa hotel in November 2002.

¹⁰ Community policing is already taking root in Kenya

Best practices and lessons learned

Best practices in developing a conducive enabling environment

Even though the government may not be endowed with adequate human and financial resources, it can put in place a conducive enabling environment for agribusiness (mobilizing participation of relevant state institutions and facilitating private sector participation).

Stable and supportive policy environment

Kenya has maintained a stable, liberal macroeconomic policy environment. Government policy has favoured foreign investment and international trade. The investment and business environment in Kenya has been enhanced through government divestiture and privatization, the abolition of import and export licensing, the removal of administrative and price controls, freedom of movement of foreign exchange in and out of the country, liberalization in the banking sector; and the removal of import duties on packaging, seeds, agro-chemicals and other necessary inputs for floriculture exports.

The tendency of the Kenyan government not to intervene directly in horticultural production and marketing is clearly an approach that can be and is being emulated by other countries. Kenya's earlier experience in promoting joint ventures between foreign companies and state enterprises was almost uniformly unsuccessful and serves as a counterexample. The most successful processed horticulture operation in Kenya has been Del Monte, which did not involve a partnership with a state enterprise.

Box 4

Limited direct government intervention in horticultural markets

The Kenyan government has not intervened to any significant degree in horticultural markets to buy, sell, export, or set prices. In Kenya, the Horticultural Crop Development Authority was originally given authority to fix prices, regulate trade, operate processing facilities, and market horticultural goods. Based on its unsuccessful experience, the functions were pared back to regulation, market information, and advisory services. State enterprises were actively involved in various horticultural processing operations, often as part of joint ventures with foreign companies. Most of the growth in horticultural exports, however, has been in fresh produce. In any case, the horticultural sector was never as tightly controlled as the maize, coffee, and tea sectors were. In spite of the proliferation of state enterprises, the investment climate in Kenya was good, at least compared to many other African countries.

Source: Minot, M. & Ngigi, M. 2004

Tourist industry spin-offs

Two important spin-offs from Kenya's tourist industry have spurred the growth of export horticulture. First, tourism has dramatically increased access and reduced the cost of airfreight to Europe. By 1980 Kenya was receiving 372 000 international tourists per year, more than any other African country after South Africa. The growth in the tourism sector continued on an upward trend in 2005 with combined earnings from international and domestic subsectors rising from Kshs39.2 billion to Kshs48.9 billion, which is equivalent to a growth rate of 24.7 percent. The international tourism arrivals grew from 1.4 million in 2004 to 1.5 million in 2005, with significant growth observed in the first and third quarters of the year. The sector remained vibrant and during that period, visitors from Europe increased by 15.4 percent and accounted for 62.4 percent of the total tourist arrivals. The government is undertaking a concerted marketing campaign through the Kenya Tourist Board, while necessary measures are being undertaken to

improve security in the hotels and tourism sites with a view to consolidating the gains made in this sector.

Although canned goods can be transported by ship from Africa to Europe, fresh produce generally must be air freighted. When export volumes were too small to justify a charter cargo jet, the cargo capacity of passenger jets provided a means of air freighting Kenyan produce to Europe. Later, as volume increased, cargo jets and wide body passenger jets were used more widely. Second, the tourism industry increased local demand for high-quality fruits and vegetables by hotels and restaurants, giving Kenyan farmers more experience in horticultural production and an outlet for produce not meeting export standards. Tourism has expanded the domestic demand for high-quality fruits and vegetables. As hotels and restaurants established supply chains to supply this produce, they have given Kenyan farmers more experience with horticultural production and indirectly strengthened the infrastructure and logistical skills of traders, all of which have facilitated the development of the horticultural export sector.

Acceptance of international standards

There is growing acceptance and adoption of international standards by local SMEs. Key among these standards is the International Organization for Standardization (ISO), standards ISO 9000, ISO 14001 and SA 8000. There is also an emerging trend in which industry associations are developing their own codes of practice. This is however prevalent among associations of commodity exporters, driven mainly by consumer demands in overseas markets. Those producing for the local market are not particularly proactive in this regard and would probably respond under pressure from government regulatory requirements. Both voluntary initiatives and statutory enforcement of environmental and labour laws should be encouraged. The costs of technical compliance are normally high and are associated with ensuring compliance with EU food safety standards and SPS regulations. In the 2004 the EU agricultural budget, gave some Euro 248 million allocated to farmers towards the implementation of agricultural health.

The Kenyan market framework is also in such a way that it does not adequately reward higher quality. EU farmers have been assisted in meeting these quality standards, whereas Kenyans suppliers will have to carry all these costs on their own account and will receive no such assistance. This is likely to greatly reduce the attractiveness of supplying the EU market, particularly in a context where the prices of basic commodities are falling under the impact of the on-going process of Common Agricultural Policy (CAP) reforms. In this context, the question that needs to be answered is whether Kenya is able to establish programmes of financial assistance that would help meet the financial costs associated with complying with EU SPS standards. This can take the form of low cost loans to the farmer to meet the costs of technical compliance with stricter EU SPS standards.

Business licenses reform

The government, with technical assistance and funding from DFID, initiated licensing reforms by introducing the single business permit (SBP) in 2000, which combined 16 individual business licenses into one. The introduction of SBP was a major step in alleviating the bureaucratic burden for businesses. However, businesses, particularly in the distribution of goods and services, continue to face difficulties with licensing procedures. For instance, some licensing authorities, especially those in local governments, require businesses to obtain multiples of SBP which have to be annually renewed for the same business activity. This violates the spirit of SBP and therefore further reforms of SBP are being considered. The “guillotine” strategy is being adopted as a means of rapidly reviewing existing regulations, eliminating those that are no longer needed, and streamlining those that are not business friendly.

The Ministry of Trade and Industry and the Ministry of Finance have constituted a working committee on business licensing, comprising officials from:

- Ministry of Finance;
- Ministry of Trade and Industry;
- Kenya Law Reform Commission;
- Ministry of Local Government;
- Attorney –General’s Chambers;
- Investment Promotion Centre.

Phase one of the reform process targeted 50 licenses to be guillotined during the 2005/2006 financial year. Kenya’s reforms aimed at reducing the cost of business have earned a rave review from the IFC, despite high taxes and official red tape pulling the country down in a global index on the ease of doing business.

Box 5

Industrial and domestic sugar import licensing

For the period 2004/05, there were a total of 68 registered importers. Following the court cases that became a subject of interest between 2004-2005, the licensing regime came into deep scrutiny. Questions that arose ranged from the management of the licensing programme to the transparency in releasing the license. The Sugar Act 2001 in essence mandates the Sugar Board to be the regulator of the industry. It is the body that is legally mandated to register all the sugar importers who meet the required standards. These requirements are set out as in the Sugar (Import & Export & by-products) Regulations 2003. All registered industrial users are automatic recipient of an import license. On the other hand, the domestic users can apply directly or through their applied agents for the license quota. Upon a successful bidding exercise the prospective importer is gazetted by the Kenya Sugar Board for that year’s quota. To most importers the problem is not with the cost incurred in obtaining a license. Their main fear is that the more known traditional importers seem to be the highly favoured importers. Last year the auction system of bidding was used as opposed to this year’s first-come-first serve system. Transparency in such a system has continually been questioned.

Box 6

Reducing cotton farming costs through streamlined regulations

The cost of cotton farming could be reduced by a restructuring of the regulatory environment for agrochemicals. By supporting local reformulation and enabling rapid approval of new products, the regulations could support farmers, rather than work against them. By taking these steps, not only should the quality improve by enabling more sprayings and greater investment in crop maintenance, but increased profits should create incentives to entry of new farmers and expansion of current farms.

Kenya was rated top for its business licensing reform programme that has eliminated 110 business licenses and simplified eight others. The changes have streamlined business start-up and cut both the time and cost of getting building permits.

The programme aims to eventually eliminate or simplify at least 900 out of the country’s 1 300 licenses. The ease of doing business was, however, found to still be hampered by some challenges, including the high levels of taxation and red tape in resolving business disputes. IFC, an investment arm of the WB, indicates that while it is now much easier to do business in the

country, companies for instance still use half of their profits in paying taxes. The Kenyan government has eliminated 110 business licenses and replaced the paper-based customs administration with an electronic data interface system. The completion of a review of business licenses and fees in Kenya has resulted in a significant improvement in the business environment in the country in the last year. The reforms began in 2005 and by May 1 of 2007, the government of Kenya had already eliminated 110 licenses and simplified eight others. It is also expected that the government will implement the recommendations of the Working Committee on Regulatory Reforms for Business Activity in Kenya in the 2007/2008 financial year, where out of 1 325 licenses, 424 will have been eliminated and 607 simplified to achieve legitimate regulatory goals at a lower cost to businesses. Only 294 licenses will remain.

The time required to license a business has also been slashed: starting a business in Kenya now takes 22 days – down from 53 days. Obtaining approval of a company name will now take only one day instead of three, while the number of days for stamping incorporation documents has been reduced from 14 to 7 days. The number of days in dealing with licenses in Kenya has been reduced by 106, from 179 to 73. This reduction in time is caused by the marked improvement in the number of days it takes to obtain approval permit from the municipal authority. Procedures for approval of a permit from municipal authorities have dropped from 80 to 30 days, while the need to seek approval of project or architectural plans from the municipal authority has been eliminated, saving 25 days. Another significant reduction is in the time taken for paying and obtaining installation for water and sewage: what used to take 30 days now takes just 2.

Public-private sector dialogue

Historically, there has been very limited structured dialogue between the public and private sectors in terms of policy formulation, implementation, monitoring and evaluation. Intermittent interactions have taken place between the government and sector specific business associations. Structured public-private sector dialogue is a relatively new concept in Kenya. Nevertheless, the Kenya Private Sector Alliance (KEPSA), an umbrella group of business associations, has taken the lead in this endeavour on behalf of the private sector. The idea behind the formation of KEPSA was to provide a mechanism through which the private sector could come together to engage the government on crosscutting issues affecting the sector. These initiatives have helped instil the idea of dialogue between the public and private sectors as a permanent feature in Kenyan society. However, there are significant weaknesses that reduce the effectiveness of this dialogue and which the government, together with the private sector, should address. Public-private sector dialogue is not always well structured and thus much of it takes place informally. Consequently, the PSDS will rationalize and improve the interactions between the public and private sectors in order to enhance effective service delivery.

What are the lessons learned

Poor governance as a barrier to achieving business enabling environment

Weak performance in governance has been a major source of delays in the implementation of policy-based operations. By their very nature, policy-based operations are intended to introduce new policies, which in most cases would require introduction of new laws. The lack of good governance leads to reluctance by the government to implement some of the required policy reforms, particularly those that enhance controls. The implementation of reforms therefore depends to a large extent on the willingness of the government to take the necessary steps to introduce controls within the system. Past experiences in Kenya have demonstrated that close collaboration with development partners provide a means of obtaining early warning for possible problems in the execution of these operations.

Civil society a catalyst of change

The civil society can significantly influence change in corporate social and environmental behaviour in local SMEs. Impacts can be felt both locally and internationally. NGOs can also keep state labour departments and trade unions on their toes. This role should be nurtured and strengthened, particularly where enforcement of labour and human rights standards is wanting. However, on the downside is the fact that unplanned changes in factor costs can decrease the competitiveness of agribusiness in the country.

Change takes time

Widespread and necessary reforms needed for the Kenyan economy and public sector take time to implement. In most cases, the government is faced with difficulties when a condition requires an adjustment of the legal framework. This implies revision of existing laws for approval by parliament, which may involve a prolonged debate, depending on political sensitivities. However the tempo of reform should be maintained to improve the enabling environment for agribusiness. The media, donors and other stakeholders can ensure that the reform process is not delayed or stalled by political discord at the national level.

Free skies policy and strong tourism sector boosts agribusiness

The importance of air-freight costs in the competitiveness of export horticulture indicates implications for policy. The aviation industry is heavily protected in most parts of the world, with regulations controlling access by foreign carriers. Kenya is probably an exception in Africa, with its open skies policy and a budding privately controlled national carrier. Adopting an open skies policy, a pragmatic tourism development policy and promoting the privatization of the national airlines (Kenya Airways) have introduced greater competition and reduced the cost of air freight. This has had a positive impact on the export of fresh produce and other high-value commodities.

Promoting institutional innovation

The Kenyan experience demonstrates the importance of allowing a variety of private institutions and marketing arrangements to develop. It is necessary to continually experiment, innovate, and adapt to changing environments. The horticultural sector in Kenya is characterized by a wide array of institutional arrangements, including smallholders selling in spot markets, personalized relationships with traders, implicit contract, explicit contracts, farmer organizations, medium- and large-scale farming, and vertically integrated producer-exporters. Many commodity channels involve various scales of production and several types of farmer-buyer linkages. The government can play a role in facilitating institutional innovation through the provision of market information, extension services, mediation of disputes, and the establishment of standards.

Business operation and transaction costs can be reduced through improvement of infrastructure

Telecommunications can play a vital role in reducing the costs of business transactions. Both the United Republic of Tanzania and Uganda have significant private involvement in the dominant operator, and Uganda has some competition in the international segment, whereas at the moment, Kenya has neither. On the other hand, reducing the high transportation costs can significantly reduce general operational expenses. This would in turn translate into higher profitability of Kenya agribusinesses. Moreover, since losses caused by power outages are estimated at 9.3 percent, tackling this problem can also improve profitability of Kenyan firms.

Conclusions and recommendations

Conclusions

Kenya was a prime choice for foreign investors seeking to establish a presence in Eastern and Southern Africa in the 1960s and 1970s. Yet, poor economic policies, rising problems of corruption and governance, and the deterioration of public services have discouraged FDI since the 1980s. However, the Government of Kenya is currently actively encouraging FDI through policy, institutional and legal reforms.

The reforms should be accelerated on the basis of focusing on improving the agribusiness climate and private sector development through specific reforms such as the improvement of security apparatus and of the financial sector, plus the reduction of corruption perception. Kenya also has a strong need to improve its infrastructure (road infrastructure, electricity and water, etc.) to attract much needed investment.

The Government in Kenya at the time of this writing, which came into power following peaceful elections in December 2002, has developed an Investment Programme for Economic Recovery Strategy (IP-ERS) through widespread participation of stakeholders. The IP-ERS gives priority to restoring macroeconomic and governance fundamentals, and to laying the foundations for sustainable economic growth and poverty reduction. The private sector development is an integral component of the ERS.

The Investment Promotion Act 2004, is expected to streamline the administrative and legal procedures to achieve a more effective investment climate. The legislation replaces the government's IPC with the new Kenya Investment Authority (KIA). However, the new law ought to be scrutinized for new barriers, like the ones already identified namely, such as the setting of the minimum foreign investment threshold at US\$500 000.

Recommendations

Acceleration of implementation and review of accountability policies

Although the Anti-Corruption Commission has moved forward with the implementation of the Anti-Corruption and Economic Crimes Act, the public verdict is that it has not moved far enough. The Anti-Corruption Commission has however performed well in creating anti-corruption awareness through publicity and education. It is the prosecution side of the commission which has been perceived as weak and partisan. It is this image that the commission needs to shade, while recognizing the political ramifications that may arise.

The full implementation of the code of Ethics Act for Public Servants in 2004 has not been realized. While the implementation has fully covered the civil service and transformed it into one of the best in the region, being recognized by the UN through issuance of accolades, it has met resistance from the political wing of government. The law has loopholes which have been challenged through the courts. Therefore, there is need to tighten the loopholes and to implement the law across the public spectrum. Public procurement and disposal law, although well meant in curbing corruption, has also become a constraint in government procurement. The rigidities associated with procurement ought to be amended to enhance business and accelerate development.

Extension of the infrastructure development and maintenance pace

The maintenance and monitoring of the electricity infrastructure must receive focused attention to increase the quality and reliability of power. Also, the institution of an apex organization to act as the steward of private sector interests throughout the value chain could be of much help in partnering with the Kenyan Government to oversee the necessary reforms. These should include: a cut down on enterprise production costs; achieving product quality e.g. certification to ISO 9001; carrying out further policy reforms to attract FDI; incorporate sustainability concepts into corporate strategies; improve corporate governance, e.g. by reinventing boards of directors by hiring individuals with a passion for professional integrity and pursue reforms of national development policies such as the ERS for Wealth and Employment Creation 2003.

Reduction of crime and insecurity through private sector partnerships and allocation of more resources

Through study tours, attachments and other forms of training, the partnerships with best practice police force will instil more professionalism within the police force and enhance its ability to combat crime and insecurity. Exposure to the latest IT systems will also be supported under the PSDS. In addition to direct funding, the PSDS will support various community-policing initiatives. Special emphasis will be placed on expanding these initiatives in key business areas, particularly those affecting micro, small and medium enterprises. Cluster 1 of ICAP has identified specific quick win measures to combat crime and insecurity. The PSDS will catalyse and fast track their efforts by funding additional stakeholder forums, and other relevant initiatives that will fast track the process.

References

- Action Aid International.**2005. *Impact of Sugar Import Surges on Kenya*, September 2005
- Bannock, G., Gamser, M. & Juhlin, M.**2005. *The Importance of the Enabling Environment for Business and Economic Growth: A 10 Country Comparison of Central Europe and Africa*, Case Study for WDR 2005, DFID, London.
- Economist Intelligence Unit.**2006. *Kenya: Country Profile 2006*,London.
- Economist Intelligence Unit,** 2006. *Kenya regulations: Investment Promotion Act imposes new restrictions*, Country Briefing, April 03, 2006.
- Government of Kenya.**2006a. *Kenya Monthly Economic Review*, October 2006, Central Bank of Kenya, Nairobi.
- Government of Kenya.**2006b. *Annual Report 2006*, Central Bank of Kenya, Nairobi.
- Government of Kenya.**2006c. *Banking Supervision Annual Report 2005*, Central Bank of Kenya, Nairobi.
- Government of Kenya,**2006d. *Economic Survey 2006*, Central Bureau of Statistics, Nairobi.
- Government of Kenya.**2006e. *Annual Progress Report*, Investment Programme for Economic Recovery Strategy for Wealth and Employment Creation 2003-2007, Nairobi.
- Government of Kenya.**2005a. *Statistical Abstract 2005*, Central Bureau of Statistics, Ministry of Planning and National Development, Nairobi.
- Government of Kenya.**2005b. *Economic Survey 2005*, Government Printer, Nairobi.
- Government of Kenya.** 2004a. *Strategy for Revitalising Agriculture 2004-2014*, Ministry of Agriculture & Ministry of Livestock and Fisheries Development, Nairobi.
- Government of Kenya.**2004b. *Investment Programme for the Economic Recovery Strategy for Wealth*, Nairobi.
- Government of Kenya.**2003a. *National Export Strategy 2003-2007*, Nairobi.
- Government of Kenya.**2003b. *Economic Recovery Strategy for Wealth and Employment Creation 2003-2007*, Nairobi.
- Government of Kenya .**2002. *National Development Plan 2002–2008*, Government Printer, Nairobi.
- Government of Kenya.** 2001a. *Monthly Economic Review, January 2001*, Central Bank of Kenya, Nairobi.
- Government of Kenya.**2001b. *Economic Survey 2001*, Government Printers, Nairobi.
- Government of Kenya.** 2000. *Economic Survey 2000*, Central Bureau of Statistics Ministry of Finance and Planning, Nairobi.
- Government of Kenya.**1984. *The Employment Act*, Government Printer, Nairobi.
- Muendo, K. M. & Tschirley, D.**2004. Improving Kenya's Domestic Horticultural Production And Marketing System: Current Competitiveness, Forces Of Change, And Challenges For The Future Volume III: Horticultural Research And Input Sector Regulation In Kenya And Tanzania, *Working Paper No. 08C/2004*, Tegemeo Institute of Agricultural Policy and Development, Egerton University.
- Minot, M. & Ngigi, M.** 2004. Building on Successes in African Agriculture Are Kenya's Horticultural Exports a Replicable Success Story? *Focus 12, Brief 7 of 10* , April 2004 IFPRI, Washington D.C.
- O'Brien, F.S. & Ryan,T.C.**2001. Kenya: In. S. Devarajan , D. Dollar & T. Holmgren (eds). *Aid and Reforms in Africa. Lessons from ten Case studies*, World Bank, Washington D.C.
- Smith, L. & Karuga, S.** 2004. *Agriculture in Kenya: What Shapes the Policy Environment?* Report to DFID, Oxford Policy Management.
- The East African.** 2003.*The East African Business Summit*, September 18-21, Nanyuki, Kenya. Special Report, Sep. 29-Oct 5, 2003

- UNCTAD.** 2005. *An Investment Guide to Kenya. Opportunities and Conditions*, June, 2005, United Nations Publication, Geneva/ New York.
- UNDP.**2003.*Third Kenya Human Development Report*, UNDP, Nairobi.
- UNDP.**2002. *Kenya Human Development Report*, UNDP, Nairobi.
- Masai,W.S.& Mullei,A.K.**2006. *Improving Financial Sector Performance in Kenya*, ACEG.
- Were, M., et al.**2005. Kenya's Reform Experience: What Have We Learnt? *Working Paper No. 12*, KIPPRA.
- World Bank.** 2006. *2006 World Development Indicators*, World Bank, Washington D.C.
- World Bank.** 2005. *African Development Indicators 2005*, World Bank, Washington D.C.
- World Bank & International Finance Corporation.** 2004. *Investment Climate Assessment Kenya: Enhancing the Competitiveness of Kenya's Manufacturing Sector: The Role of the Investment Climate*, World Bank, Washington D.C.

Appendix

Table A: Comparison of electricity tariff for manufacturing industries (Unit: US\$/kWh or user)

Country	Basal unit tariff	Ad-quantum tariff	Demand tariff	Cost for 10 000kwh.	Cost rank
Malawi	10.01	0.02	0.05	740	9
Zambia	4.10	0.01	0.11	1 246	8
Zimbabwe	0.00	0.16	0.00	1 669	7
The United Republic of Tanzania	0.02	0.15	0.06	2 151	6
Egypt	0.00	0.18	0.11	2 945	5
South Africa	0.00	0.37	0.00	3 683	4
Uganda	0.00	1.09	0.00	10 864	3
Swaziland	0.00	1.10	0.00	11 046	2
Kenya	107.14	1.14	0.06	11 536	1

Applied: US\$1 is equivalent to: Tshs 67.5 for The United Republic of Tanzania, kwacha 106 for Malawi, rand 6.69 for S.Africa and Swaziland, Ushs 1.933 for Uganda, pt 616 for Egypt, kwz 4 325 for Zambia, Z\$824 for Zimbabwe and Kshs 5.75 for Kenya. Cost for 10 000 KWh/day = monthly cost

Table B: Electricity Generated in 2003 in Selected African Countries (unit: Million KWh)

Country	South Africa	Zambia	Mozambique	Zimbabwe	Cote d'Ivoire	Kenya	Sudan	The United Republic of Tanzania	Uganda
Hydropower	17 823	9 523	10 519	5 359	1 832	3 265	2 191	2 549	1 670
Thermal power	216 354	51	33	3 440	3 261	1 599	1 163	192	5
Total Generation	234 177	9 574	10 602	8 799	5 093	4 864	3 354	2 741	1 675

Source: UNIDO

Table C: Typical examples of processing scale in MSE ~ Jua Kali Processing Units in 2005

Equipment	Capacity	Annual Production	Output	Percentage Utilization
Sunflower– Ram Press	35 litres/day	265 litres	1.0 litres/ day	2.9
Mango drier	1 kg/day	70 kg	0.2 kg/ day	27.0
Honey centrifuge	200 kg/hour	1 000 kg	0.7 kg/ hour	0.4
Mango Juice pulper	100 kg/day	1 100 kg	4.2 kg/ day	4.2

Source: MoARD, 2006

Table D: Trends in agro-industrial production index (1996 = 100)

Activity/ Year	1999	2000	2001	2002	2003	2004	2005	Trend
Meat/ Dairy	84.3	85.9	86.1	85.4	89.8	104.5	123.9	5.7
Vegetables/Fish/Oil/Can	372.9	391.8	423.3	397.0	405.3	466.7	468.7	15.0
Cereals/ Flour	200.9	157.6	143.1	174.4	177.7	193.3	221.6	6.0
Bakery/ Confectionary	345.2	295.5	299.9	290.8	284.3	185.1	202.7	-23.7
Sugar Industry	236.6	206.1	195.2	238.6	218.9	250.9	237.5	4.1
General Food Supply	227.8	246.4	262.3	240.2	250.8	269.1	272.1	6.0
Food Manufacturing	204.6	199.4	200.8	210.9	211.1	233.5	236.3	6.2
Beverages	155.2	166.4	157.9	164.9	176.0	200.5	232.4	11.4
Wood/ Cork	82.3	75.1	71.7	59.7	51.2	40.5	30.8	-8.7
Total Manufactures	285.6	281.4	283.6	286.5	290.6	310.0	327.0	6.7

Source: Economic Survey 2006

Table E: Status of management in large-scale manufacturers

Kind of Manufacture	No. of firms		Employed persons*		Labour Cost*		Production Value	
	02	03	02	03	02	03	02	03
Meat/Dairy	14	14	8 462	8 435	1 738	1 887	3 575	3 915
Canning fish/Oil	18	17	8 113	8 501	2 367	2 648	5 283	6 457
Flour Mill	14	14	6 267	6 318	1 069	1 140	1 796	1 950
Bakery	21	21	2 725	2 702	675	735	986	1 120
Sugar/Confectionary	14	13	17 024	17 184	3 052	3 057	5 531	6 081
Other food processing	77	76	31 518	31 938	4 041	4 660	6 355	7 290
Beverage/Tobacco	20	20	8 292	8 022	4 186	4 497	8 481	9 482
Total (including 25 kinds)	595	579	229 746	240 921	51 751	60 762	71 790	81 725

Source: Statistical Abstract 2004 Note: Unit of cost & value: * million Ksh.

Table F: Number of vehicles registered

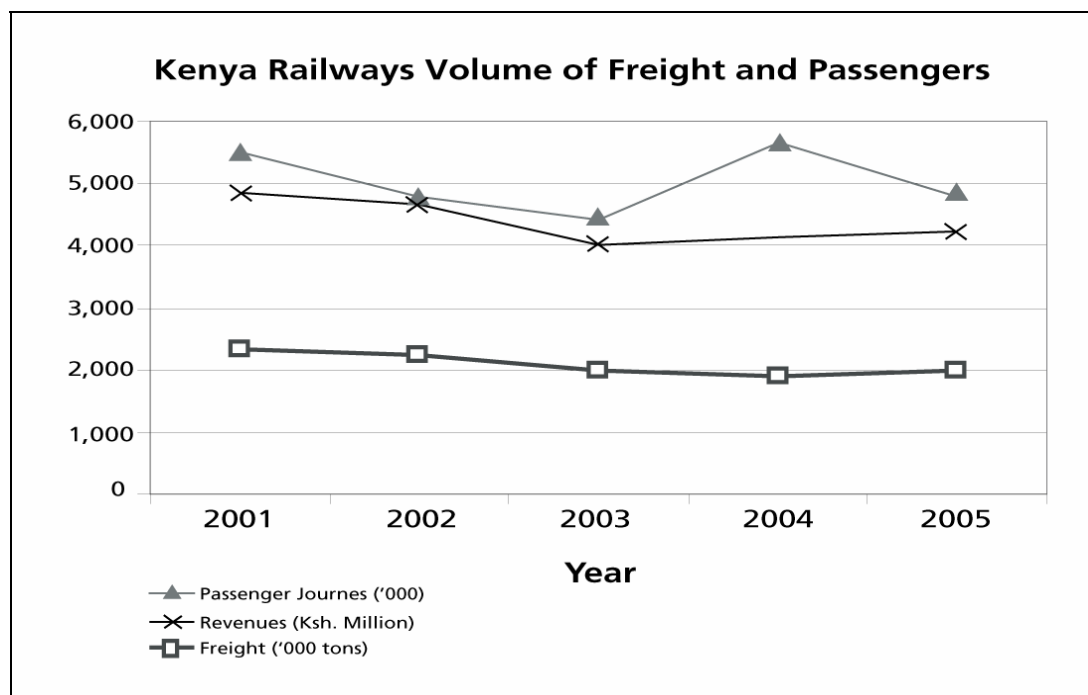
Vehicle Type	2001	2002	2003	2004	2005
Saloons /Wagons	12 990	17 280	17 740	21 490	24 370
Pickup / Vans	4 750	5 800	6 800	7 000	6 300
Lorries / Trucks	1 280	1 920	2 070	2 460	3 110
Trailers	600	500	860	1 110	1 350
Buses / Coaches	490	400	670	870	890
Minibuses	3 600	4 000	2 850	4 400	4 080
Tractors wheeled	570	680	660	830	860
Motorcycles	1 560	1 900	2 080	4 140	3 760
Other vehicles	180	110	160	280	930
Total	26 024	32 527	33 768	42 482	45 653

Source: Economic Survey 2006

Table G: Kenya railway line system

Network / Line Description	Distance (km)
Main line Mombasa to Malaba	1 083
Principle lines	346
Branch / Minor lines	490
Private lines / Sidings	859
Total	2 778

Source: EU, Kenya Transport Sector Policy and Strategy Study 2004

Figure A. Rail transportation

Source: Statistical abstract 2006

Table H: Volume of freight handled by KPA 2001-05

Traffic Units	2001	2002	2003	2004	2005
Imports ('000) DWT	8 299	7 844	9 332	10 018	10 700
Exports ('000) DWT	1 999	2 380	1 994	2 494	2 278
Imp + Exp ('000) DWT	10 298	10 224	11 326	12 511	12 978
Trans-shipment	303	340	605	409	303
Total	10 600	10 560	11 930	12 920	13 280

Source: KPA Data Bulletin 2006.

Table I: Agro-Machinery industry in Kenya economic structure

Index	Unit	1990	1995	2000	2005	Annual Growth Rate,percentage (1990~2005)
GDP at market prices	Ksh Bil	99.4	232.6	967.8	1 445.50	21.1
Contribution to GDP						Total down
Metal Products	%	2.1	1.3	0.4	0.3	-1.80%
Non-electrical Machine	%	0.1	0.2	0.1	0.1	-
Transport Equipment	%	1.2	1.8	0.7	0.3	-0.9
Total 3 Groups	%	3.4	3.3	1.2	0.7	-2.7
Manufacturing	%	13.3	13.5	10.3	10.3	-3
Trade						2000-2005
Export	Ksh Bil		97.3	134.5	260.4	18
Iron and Steel	Ksh Bil			2.6	8.9	3.4 times
Metal Scrap	Ksh Bil			0.2	0.4	19
Machinery & transport	Ksh Bil			0.6	3.6	+6.0 times
Import	Ksh Bil		155.2	247.8	443.1	15.7
Iron & steel	Ksh Bil			8.6	21.1	2.5 times
Motor vehicle tyres	'000			2 518	1 580	-11
Bicycle tyres	'000			859	1 337	11.7
Hand & machine tools	Ksh Bil			0.8	0.8	-
Industrial machinery	Ksh Bil			39.4	48.9	5.6
Agricultural machinery	Ksh Bil			1	2.3	2.3 times
Metal working machinery	Ksh Bil			0.1	0.2	2 times
Food processing machinery	Ksh Bil			0.8	2	2.5 times
Road motor vehicle	Ksh Bil			9.7	25.3	2.6 times
Trade Balance	Ksh Bil		-57.9	-113.3	-182.7	12.7

Source: Economic Survey 1984 – 2007 and Statistical Abstract 1994 - 2006 Kenya National Bureau of Statistics, Ministry of Planning and National Development

Table J: Imports of selected agro-machinery

COMMODITY	UNIT	1996	2005	TREND	ANNUAL GROWTH (PERCENT)
Agricultural hand tools	'000	2 775	3 427	~	2.0
	'000Ksh	796 320	216 435	~	-32.2
Steam generating boilers	Pcs	42 tonne	502 255	~	-
Tractors	Pcs	960	71 723	~	?
	Ksh'000	997 100	1 493 241	~	4.1
Agricultural implements	Ksh'000	781 140	779 700	~	0.1
Pumps for liquid	Pcs	211 tonne	500 597	~	
Machinery sector	Ksh'000	88 179 860	213 615 027	↗	9.3

Source: Annual Trade Report (ATR), Customs and Excise Department Statistical Abstract 2001 and 2006, CBS

Table K: Import of food processing machines and facilities (2000 – 2005), (Unit : Ksh mil [US\$1=Ksh67])

ITEM	2000	2001	2002	2003	2004	2005
Food Process	796	1 332	793	1 022	1 874	1 950
Total Import	247 804	290 108	257 710	281 844	364 205	443 093

Source: Trade Report (TR), Customs and Excise Department, Kenya Revenue Authority Statistical Abstract 2001 – 2006, Central Bureau of Statistics.

Mozambique

Mr. Danilo Abdula, Ministry of Agriculture

Executive summary

This study identifies, characterizes and assesses the set of policies, institutions and support services that constitute the enabling environment for agribusiness and agro-industrial development in Mozambique. It also tries to identify lessons and best practices from induced changes in policies, institutions and support services that have led to increased investments and improved competitive performance in specific agribusiness and agro-industry subsectors.

In terms of investment promotion and facilitation, there is room for some improvements. Investments in research, irrigation schemes and other supporting infrastructure, and adoption of new varieties will most likely result in increased crop production and productivity.

Regarding public governance, there is an accumulation of convincing empirical evidence pointing to the importance of political stability and good governance for growth and poverty reduction. The government should continue the efforts to combat corruption and ensure transparency.

Corporate government laws and regulations will also influence the agribusiness environment and agro-industrial development. Most of the land in large holdings remains unutilized, and breaking these large holdings into smaller and more efficient units is an option to be considered.

Government officials should provide better information on procedures and requirements for obtaining VAT refunds. A related problem is that every claim is subject to scrutiny. The system can be streamlined by adopting risk-based selective inspections. In addition, certain provisions of the VAT code may be overloading the system. Structural reforms to reduce the volume of claims and improve the service would bring some improvements to the system.

Mozambique adherence to internationally recognized concepts and principles makes it crucial to the government to promote responsible business conduct. The WTO policy review for Mozambique, conducted in 2000, indicated that trade-related institutions in Mozambique suffered from very limited human capacity, poor inter-ministerial coordination, and weak organizational structure. The government should promote inter-ministerial coordination and invest in capacity building.

In order to evaluate how currency movements affect competitiveness it is necessary to examine changes in the real exchange rate, which takes into account differences in the inflation rate between trading partners. Regarding tax policies, there is a widespread agreement that a fair tax system collects proportionately more from those with higher incomes, and provides relatively uniform and non-discriminatory treatment of taxpayers with similar economic circumstances in terms of ability to pay. A fair tax system also minimizes the tax burden on the poor, and avoids excessive tax rates and arbitrary impositions all around.

Equally important, many businesses incur substantial financing costs as a result of VAT refund delays. Especially for exporters, the added cost undermines the advantage of the VAT system, which was designed to improve competitiveness by eliminating domestic indirect taxes on export sales. Eliminating such delays would enable many enterprises to make additional investments.

Characterization of the agribusiness sector in Mozambique

Trends and patterns in agro-industrial investment in Mozambique

Since the signature of the peace accord in 1992 and the subsequent first democratic elections in the country in 1994, there has been a significant inflow of capital to support investments in Mozambique. (Benfica *et al.*, 2002). There has been a tremendous increase in the volume of investment in rural-based projects over the last 15 years, including in agro-industry. For instance, in terms of value invested, agro-industrial investments represented, on average almost 60 percent of all rural based projects in the period 1985-mid 2001. In addition, the total value invested in agro-industry increased about 5 times from the period 1985-1990 to 1991-1996, from US\$33.4 million to over US\$161 million. Then it more than doubled from that period to 1997-2001.

The focus of investment has moved from cotton and tobacco to a more balanced diversification into sectors like maize, cashew, rice, sugar, tea, pigeon pea and other crops, depending on the region. Some crop-specific projects have emerged, such as the paprika project in Central and Northern Mozambique, flowers in Manica, pigeon pea in Gurue, tobacco in the Zambezi valley, banana in Maputo, just to name a few.

Agro-industrial investments and institutional arrangements with smallholders

Given the lack of domestic effective demand in many parts of Mozambique, the sustainability of agro-industrial investments over time greatly depends on the ability to connect to export markets. Many vertically integrated farmers/processors as well as independent spot market producers' investments are oriented exclusively towards the domestic market or to a combination of domestic and foreign markets, while contract farming investments are mostly oriented towards the export markets or to a greater extent to a combination, but not to the domestic market alone (Benfica *et al.*, 2002).

A study in 2002 shows that nearly two thirds of the projects (62 percent) fall within the businesses that buy raw materials in spot markets from independent producers, that is, those regarded as having forward production linkages with smallholders in rural areas by dealing with them as independent producers. This is also the type of business that has the highest total amount invested (about 45 percent) of the total, but has the lowest average value per project, just below US\$4 million. The major subsectors in this type include cashew in the southern and northern parts of the country, as well as maize all over the country. This type of arrangement is somewhat common in some other subsectors (see table 9).

Table 9: Agro-industries and institutional arrangements with smallholders

Sectors of Activity	Agro-Industrial Investment				
	Distribution of Projects		Total		Average
Organizational/Linkage Type	Number	Percent	US\$000	Percent	US\$000
Spot Markets - Processing with Independent Smallholder Producers (IP)	68	62	261 860	45	3 851
Contract Coordination Processing with Contract Farming (CF)	21	19	130 446	23	6 212
Vertical Integration Processing-with Plantation Agriculture (VI)	21	19	184 260	32	8 774

Source: Benfica *et al.*, 2002

Vertically integrated agro-industries and those with contract farming arrangements constitute about 19 percent of the sub-sample each. Vertically integrated investments accounted for 32 percent of the total value invested in agro-industries and have the highest average value invested - US\$8.8 million. This is a reflection of its capital-using/labour-saving nature. The majority of the vertically integrated investments are those involved in sugar plantation in the central and southern parts of the country and tea in the Zambezia province. Both sectors are undergoing significant additional investments and are strengthening links with external markets. Other, once important, subsectors that fall in this type are rice and coconut in various parts of the country.

Agro-industries institutionally linked to smallholders through contract farming arrangements accounted for 23 percent of the total investment and have an average investment value of US\$6.2 million. This type is predominant in cotton production areas, but also increasingly in other crops such as tobacco. Contract farming schemes in cotton have been evolving, especially as a result of missing credit and input markets in those areas. Reduction in transaction costs is achieved through the development of producer associations among farmers. Besides the cotton processing activities, these firms may involve oil and soap processing from cotton seeds.

Some small and medium scale private or community owned oilseed processing units have also developed rapidly in those areas with technologies promoted by international NGOs. Some diversification crops such as sunflower and sesame are normally also involved.

Sources of financing by type of agro-industry

The table on the next page shows the distribution of agro-industrial investments across different sources of direct investment¹¹, namely exclusively domestic investment, exclusively FDI, and also foreign and domestic investment .

Overall, just over half of the investments relied exclusively on domestic direct investment, over a third on joint sources (domestic direct and FDI) and only about 13 percent on FDI alone. Although vertically integrated businesses rely heavily on domestic direct investment, FDI is also more prevalent in that type than in other types. This is in part caused by the recent injection of

¹¹ Direct investment refers to the value directly contributed to a project by an investor (national or foreigner) in terms of financial or physical assets (equipment). A significant number of the projects complement that with sources of financing from the domestic and/or foreign banking system. The total value of investments reported in this study takes into account all these sources.

Mauritian capital in the rehabilitation of the sugar industry. Also, over two thirds of contract farming arrangements rely on joint ventures. Overall, about 75 percent of the total value invested over the period was put by projects that rely in joint ventures.

Table 10: Sources of financing by type of agro-industry

Sources of Financing	Agro-Industrial Projects Only			
	Independent producers	Contract farming	Vertical integration	Total
	----- percentage of projects -----			
	----- total value invested in thousand US\$ -----			
	----- (total value invested in percentage) -----			
Domestic Direct Investment only	57 49 509 (19)	24 14 327 (11)	62 25 818 (14)	52 89 654 (16)
Foreign Direct Investment only	10 22 806 (9)	9 9 239 (7)	24 23 094 (13)	13 55 139 (10)
Domestic and FDI	33 189 545 (72)	67 106 880 (82)	14 135 348 (73)	35 431 773 (75)
Total	100 261 860 (100)	100 130 446 (100)	100 184 260 (100)	100 576 566 (100)
Percentage with some domestic or foreign loans	90	91	81	88

Source: Benfica *et al.*,2002

Constraints hindering the development of the agribusiness sector in Mozambique

Several constraints hinder the development of the agribusiness sector in Mozambique. First, smallholders depend on a rain-fed agriculture and the occurrence of cyclical droughts results in low production and productivity, and thus the lack of surplus for commercialization.

Second, the lack of access to credit thwarts these households from using improved agricultural technologies. Less than 5 percent use improved seeds, less than 6 percent use chemical fertilizers (mostly in tobacco), and less than 2 percent use irrigation.

The low use of such improved technologies is related to a third constraint, which is the relatively bad road infrastructure, particularly in Central and Northern Mozambique. Because the roads are worse in Northern Mozambique, being a member of an agricultural association enables some households to assemble their produce and participate in the market. Agricultural associations are also useful in assuring the access to inputs. Fourth, delays in the reimbursement of the VAT make it difficult for some agribusiness enterprises to reinvest in their activities.

Enabling environment for agribusiness and agro-industrial development

There are several enabling environment reforms needed for agribusiness to effectively take place in Mozambique.

Adoption of improved technologies

In terms of investment promotion and facilitation, there is room for some improvements with respect to successfully promoting the adoption of improved technologies that are profitable for the farmer. Mozambique currently imports considerable amounts of rice. Investments in research, irrigation schemes and other supporting infrastructure, and the adoption of new rice varieties, will most likely result in increases in rice production and productivity. At the end, the price of rice will not decline as a consequence of increased production, because local production will substitute the current import levels, and farmers will gain from increased production while maintaining relatively the same sales price. Investment incentives for the rice subsector could in principle be linked to commitments to improved technology utilization.

Public governance

The government already recognizes public governance as being one of the fundamental areas of intervention needs (Government of Mozambique, 2001). The government plays a key role in promoting the agribusiness environment, including measures to curb corruption and promote institutional and political stability. There is an accumulation of convincing empirical evidence pointing to the importance of political stability and good governance for growth and poverty reduction (Alesina and Perotti, 1994; Knack and Anderson, 1995; Collier, 1999; Collier and Gunning, 1999, World Bank, 2000). Bad governance leads to “bad” policies, which create a disabling environment for savings, investment, risk-taking and employment creation, and is often associated with political instability, which can hamper investments.

Corporate governance laws and regulations also include the observation of shareholders rights as well as to corporate disclosure, transparency and accountability. Tax administration is a constant complaint of the private sector. Delays in VAT refunds, discretionary assessments and penalties, as well as corruption, are at the centre of tax administration grievances. VAT systems are vulnerable to fraudulent refund claims. The sharp divergence between private sector claims about long refund delays and the statements by the government make it clear that the refund process suffers from a lack of transparency (Nathan Associates, 2004). Authorities should also provide better information on procedures and requirements for obtaining VAT refunds.

A related problem is that every claim is subject to scrutiny. The system can be streamlined by adopting risk-based selective inspections. In addition, certain provisions of the VAT code may be overloading the system. According to the same authors, the business community is also highly critical about the degree of discretion exercised by tax officials in determining assessments and penalties, leading to unpredictable tax bills, arbitrary fines, and corrupt practices. Discretion stems from structural and administrative features of the system. For example, the simplified regimes create an invitation to discretion and negotiation by the need to estimate turnover for small businesses without adequate accounts.

Land law

The land law influences the agribusiness environment and agro-industrial development. The granting of large concessions has created a bimodal agrarian structure, with most land either in very large or very small parcels and hardly any land in parcels of intermediate size (Nathan Associates, 2007). The same authors argue that in Mozambique, however, legal restrictions have restrained the market in land rights and that this market has not had much effect on the distribution of parcel sizes. Most of the land in large holdings remains unutilized, and breaking these large holdings into smaller and more efficient units is an option to be considered. In

contrast, smallholders cultivating very small parcels should increase their landholding, move to more profitable non-farm income, or switch from the cultivation of staple crops to more valuable crops.

Human resource development

The other enabling environment constraint for agribusiness and agro-industrial development is related to human resource development. The cultivation of certain crops requires some degree of specialization in term of labour. For example, a project of rose cultivation in greenhouses in Manica needed special labour training in growing crops in such facilities. In addition, in order for households to commercialize their products, basic knowledge of simple accounting principles may be required. In other words, both at the production side as well as at the commercialization side, some basic skills are necessary. Years of educational attainment enhances the agribusiness environment and agro-industrial development. A distinction between male, female and child labour must also be made. In rural Mozambique female-headed households have been reported to be less favoured than male-headed households. Moreover, women tend to be relatively less educated and they are involved in many other household activities, such as fetching water and collecting firewood. Given the correlation between years of schooling and the ability to do agribusiness, we can infer that relative to women, male household members will be more capable of participating in the market (both input and output markets).

Adherence to international agreements

Mozambique's adherence to internationally recognized concepts and principles makes it crucial to the government to promote responsible business conduct. The WTO policy review for Mozambique, conducted in 2000, indicated that trade-related institutions in the country suffered from very limited human capacity, poor inter-ministerial coordination, and weak organizational structure. Major technical assistance tasks identified in this report included, among others, the improvement in quality control and consumer protection through better equipment and staff training, provision of assistance and training to identify and overcome problems in accessing external markets, and provision of assistance to make local laws and decrees conform with WTO agreements.

Macroeconomic balance

The government is also trying to persist in its efforts to maintain a macroeconomic balance by controlling public expenditure and with persevering realistic fiscal, monetary and exchange rate policies. To evaluate how currency movements affect competitiveness it is necessary to examine changes in the real exchange rate, which takes into account differences in the inflation rate between trading partners. If prices and costs in Mozambique rise by one percent relative to those in South Africa, a stable rand rate actually puts Mozambican goods at a price disadvantage, whereas a one percent increase in the price of the rand leaves cross-border relative prices unchanged (on average). Against the US\$, the real exchange rate fell (that is, the metical appreciated) by 17 percent in 2002 (Nathan Associates, 2004), but against the rand the real exchange rate rose by 45 percent (the metical depreciated). Thus, since early 2002 Mozambican products have become less competitive against goods that are priced in US\$, but more competitive against goods that are priced in rand.

Tax policies

Regarding tax policies, there is a widespread agreement that a fair tax system collects proportionately more from those with higher incomes, and provides relatively uniform and non-discriminatory treatment of taxpayers with similar economic circumstances in terms of ability to pay. A fair tax system also minimizes the tax burden on the poor, and avoids excessive tax rates and arbitrary impositions all around. Tax incentives grant new investors a strong advantage over competing producers. Moreover, by reducing the tax yield from new investments, incentives necessitate higher taxes on other entities, thereby accentuating the disadvantage faced by domestic competitors. Tax incentives for new entrants also create a strong incentive for companies to shut down existing capital stock in favour of new investment, even if this is wasteful in terms of efficiency (Nathan Associates, 2004). Often, incentive programmes encourage transient investments, which shut down once the incentives end, as well as investments of low productivity, which only become viable because of the tax break.

For all these reasons, the starting point for using tax policy to stimulate private sector development should be to establish an attractive overall tax system with moderate tax rates that apply even-handedly to a broad tax base (Nathan Associates, 2004). Equally important, the tax system must generate revenue growth to support investments in infrastructure, market-supporting institutions, and human capital. Tax incentive programmes therefore must be designed carefully to ensure that the benefits outweigh the costs.

In depth analysis of selected elements of the enabling environment

This section attempts to analyze in greater depth some of the elements of the enabling environment. It starts with a discussion of financial services, encompassing the access to and conditions of short and long term financing and risk management mechanisms for agriculture and agro-industry development. It then evaluates the impact of trade policy, infrastructure, and development institutions supporting technology transfer to agribusiness and agro-industrial enterprises.

Financial services

Rural areas in Mozambique are disadvantaged with regard to financial services. This hinders prospects for development of agricultural exports. Smallholders face difficulties in obtaining normal bank services, because there are no financial institutions nearby providing deposit, remittance, or loan facilities. In many developing countries, special non-bank financial institutions provide most of the financing that smallholders need. Credit unions, village banks, and supplier credit from equipment dealers, seed and fertilizer suppliers, and rural stores are largely absent in Mozambique.

Although the financial system is on a favourable development path, structural and institutional weaknesses still hinder financial intermediation, which is required for private sector development and broad-based export growth. The government has to take steps to encourage more robust competition in financial markets by fostering the entry of new financial institutions.

Lack of accurate financial information on prospective borrowers constrains the ability of banks and other financial organizations to assess credit risk and, in turn, to intermediate financial resources efficiently. Accounting standards and skills are a major part of the information problem in Mozambique (Nathan Associates, 2004).

The adoption of improved technologies both at the production side and at the agroprocessing side is vital to increase the current production and productivity levels. Yet, adoption of such technologies is conditioned, among other things, by the lack of access to rural credit, particularly among smallholders. As mentioned above, the use of improved technologies is very low, and smallholders are vulnerable to cyclical droughts.

The development of drought-tolerant seeds would help smallholders mitigate the adverse effects of weather shocks. Adoption of drought-tolerant seeds, together with other improved technologies requires some kind of investment that smallholders cannot afford to. Thus, rural credit schemes would enable the adoption of such technologies to occur.

Trade policies

Because Mozambique is among the poorest countries in SADC, the country was allowed a longer transition period to lower its tariffs to South Africa. It is assumed that during this period, industries will become more competitive, infrastructure will improve, the workforce will become more skilled, and industrialists will acquire the knowledge and capacity to export competitively. At the same time, some industries are still protected while facing market costs above international levels. But lengthy transition periods are rarely successful, tending instead to decrease competitiveness by postponing the need to compete with imported goods.

Whether negotiations are regional or multilateral, they should be approached in the context of a national approach to trade policy. Mozambique's trade decision-makers must come to grips with fundamental trade policy and negotiating strategy questions. Mozambique's free trade agreements do not require it to raise any duty above the level agreed with other SADC members, but to eliminate duties between partners immediately. This is consistent with the objective of SADC to eliminate duties, even though under SADC's current terms, elimination will not occur until 2012 (2015 for Mozambique's sensitive products). Perhaps accelerated action by Mozambique and its bilateral free trade agreement partners would push the rest of SADC into action to advance tariff reductions.

In sum, if Mozambique ignores current and future changes to regional or international trade arrangements, it may lose market access. In approaching trade arrangements, Mozambique should first determine what it stands to gain by the arrangements and changes to them. Doing so will require substantial new resources for policy analysis and impact modelling.

Infrastructure

The Poverty Reduction Strategy and Action Plan (PRSP II 2006-2009) identifies infrastructure development as one of the priority areas. Better transportation and logistics infrastructure are necessary to improve market access. The development of road infrastructure will likely have a significant impact in poverty reduction. As mentioned above, in order to decrease transaction costs, farm households can decide to associate themselves and assemble their produce, reducing unit costs. Yet, full realization of such potential benefits requires a proper road network and associated logistics infrastructure.

The development of human, physical infrastructure and appropriate legislation is a precondition for development of a high-value crops industry. Fresh produce is subject to stringent SPS requirements, with which Mozambique is not yet able to cope. Even where the private sector is able to cope, the incapacity of the government to enforce and certify adherence to SPS

requirements and comply with international agreements is still an obstacle. Important for all agricultural and agroprocessing industries is the development of SPS infrastructure, crucial for high-value crops, which must not only be safe, but also recognized and accepted as such.

For commercial farms, the major infrastructure bottleneck is the rehabilitation of some irrigation schemes. For instance, irrigation and drainage management in Chokwe is weak. Coupled with the lack of rice drying equipment, this has led to poor quality paddy with a high proportion of broken grains that adversely affects market prices. The general problem of high input costs is most severe among commercial producers who rely more heavily on them than small family farms. Stronger farmer organizations pursuing bulk purchasing could help control costs and draw agrochemical companies to develop the Mozambican market.

Industrial and agricultural productivity are at acceptable levels, given the technology in use. Provided current productivity levels are maintained or improved, Mozambique could become a very competitive producer. Economies of scale can be achieved in transport and logistics through Beira port, but the charges there are high and existing port infrastructure is still inadequate.

Research and development institutions supporting technology transfer to agribusiness and agro-industrial enterprises

With the current political debates about the Green Revolution in Mozambique, it is important for researchers to conduct thorough analysis in this regard. Mozambique could learn from Asian countries experiences in this regard. In the specific case of rice, the varieties currently used in Mozambique were used in the Pre-Green Revolution era in Asia.

The government must seriously invest in R & D institutions to support technology transfer to agribusiness and agro-industrial enterprises. If such commitment is not made, then the dream of having a Green Revolution will not be materialized. As mentioned above, successful adoption of new technologies will require such technologies to be profitable for the farmers. The identification of such technologies, followed by efforts to persuade their adoption, should be a government priority.

Unless the government does the above, the Green Revolution will likely not occur. The next section discusses some of the best practices and lessons learned regarding agribusiness and agro-industrial enabling environments.

Best practices and lessons learned

Despite the fact that the cost of credit is considered high, there are three programmes designed to financially support small and medium business enterprises. The first programme is managed by the Small Industry Outsourcing Fund. This institution was designated by the government to channel donor credit funds to Mozambican enterprises. It functions like a commercial bank, but it facilitates the availability of credit to SMEs by carrying out viability studies for small projects, monitoring and giving advice after the loan is given. The fund considers goods in use that do not have a property contract and goods from the investments as collateral, also setting an interest rate that is slightly below market rates. Currently, the interest rate is around 23 percent and the collateral requirements are equivalent to 110 percent of the amount of the loan. Around 70 percent of the loans are returned.

The second credit programme for SMEs is the one managed by the Enterprises Development Programme (PODE). This institution, funded by WB as well as by other donors, has a fund of

US\$10 million to spend on credit for SMEs of Mozambican ownership. These credits are completely managed and processed by commercial banks following their own regulations and at market conditions.

A third more successful institution is Cabinet of Support to Small Investments (GAPI). This institution is a private financial service institution that provides credit to SMEs, working as a PPP institution with credits from US\$3 000 to US\$300 000 at around 18 percent interest rate. GAPI also has carried out larger syndicated loans with donor agencies in the agro-industry sector. Their overall portfolio is US\$14 million and the rates of return are around 95 percent, except for agriculture loans that are around 78 percent.

The application of the special act for the transformation industry is not very successful, mainly because the requirements to obtain benefits seem to be quite heavy and probably biased against smaller enterprises. Another problem is related to the percentage of value added required in certain low value products, caused by the need for importing most inputs. Therefore, there is a need to revise the regulations regarding this measure, in order to ensure that more firms, especially the ones that can foster production as a response to this incentive, are included as beneficiaries of this special act.

Conclusions and recommendations

This paper tried to identify, characterize and assess the set of policies, institutions and support services that constitute the enabling environment for agribusiness and agro-industrial development in Mozambique. It also tried to identify lessons and best practices from induced changes in policies, institutions and support services that have led to increased investments and improved competitive performance in specific agribusiness and agro-industry subsectors.

First, in terms of investment promotion and facilitation, there is room for some improvements. Investments in research, irrigation schemes and other supporting infrastructure, and adoption of new varieties will most likely result in increases in investments leading to improved crop production and productivity.

Second, regarding public governance, there is an accumulation of convincing empirical evidence pointing to the importance of political stability and good governance for growth and poverty reduction. The government should continue the efforts to combat corruption and ensure transparency.

Third, corporate government laws and regulations will also influence the agribusiness environment and agro-industrial development. Most of the land in large holdings remains unutilized, and breaking these large holdings into smaller and more efficient units is an option to be considered.

Fourth, government officials should provide better information on procedures and requirements for obtaining VAT refunds. A related problem is that every claim is subject to scrutiny. The system can be streamlined by adopting risk-based selective inspections. In addition, certain provisions of the VAT code may be overloading the system. Structural reforms to reduce the volume of claims and improve the service would bring some improvements to the system.

Fifth, Mozambique adherence to internationally recognized concepts and principles makes it crucial for the government to promote responsible business conduct. The WTO policy review for Mozambique, conducted in 2000, indicated that trade-related institutions in Mozambique

suffered from very limited human capacity, poor inter-ministerial coordination, and weak organizational structure. The government should promote inter-ministerial coordination and invest in capacity building.

Sixth, to evaluate how currency movements affect competitiveness it is necessary to examine changes in the real exchange rate, which takes into account differences in the inflation rate between trading partners. Regarding tax policies, there is a widespread agreement that a fair tax system collects proportionately more from those with higher incomes, and provides relatively uniform and non-discriminatory treatment of taxpayers with similar economic circumstances in terms of ability to pay. A fair tax system also minimizes the tax burden on the poor, and avoids excessive tax rates and arbitrary impositions all around.

Equally important, many businesses incur substantial financing costs caused by VAT refund delays. Especially for exporters, the added cost undermines the advantage of the VAT system, which was designed to improve competitiveness by eliminating domestic indirect taxes on export sales. Eliminating such delays would enable many enterprises to make additional investments.

References

- Alesina, A. & Perotti, R.** 1994. The Political Economy of Growth: a Critical Survey of the Recent Literature, *World Bank Economic Review*, Vol. 8 No. 3 pp. 351-71, World bank, Washington D.C.
- Benfica, R. & Tschirley, D.** 2002. The Impact of Alternative Agro-Industrial Investments on Poverty Reduction in Rural Mozambique, *Working Paper # 51*, Ministry of Agriculture of Mozambique, Maputo.
- Collier, P.** 1999. On the Economic Consequences of Civil War.' *Oxford Economic Papers*, 51, pp. 168-183, Oxford, U.K.
- Collier, P. & Gunning, J.W.** 1999. Explaining African Economic Performance, *Journal of Economic Literature* 37(1): 64-111
- Government of Mozambique.** 2001. *Council of Ministers. Poverty Reduction Strategy Paper I*, Maputo.
- Knack, S. & Anderson, G.** 1995. Institutions and Economic Performance: Cross-Country Tests Using Alternative Institutional Measures, *Economics and Politics*, Vol. 7 pp. 207-227.
- Nathan Associates.** 2007. *Land Use Rights for Commercial Activities*, Paper Produced for United States Agency for International Development
- Nathan Associates.** 2004. *Tax Reform and the Business Environment in Mozambique: A Review of Private-Sector Concerns*, Prepared for United States Agency for International Development.
- World Bank.** 2000. *World Development Report 2000/1: Attacking Poverty*, World Bank, Washington D.C.

The United Republic of Tanzania

Gasper Ashimogo
Elibariki Msuya
Raynond Mnenwa
Sokoine University of Agriculture, Morogoro

Executive summary

Significant changes have taken place over the last decades in the environments for agribusiness and agro-industry development in the United Republic of Tanzania. The private sector has gradually been assigned a bigger role as ‘an engine for economic growth’, and has as such increasingly been regarded as the prime generator of socio-economic development that indirectly reduces poverty. The roles of markets, market institutions and of international trade have all received greater prominence. The government has, during this period, with support from the donor community, established and financed a variety of intervention policies, institutions and support services aimed to spur and sustain best practices in investment promotion and facilitation.

This appraisal attempts to identify, characterize and assess the set of these initiatives and draws lessons from them, mainly in order to differentiate their nature and extent through an inter-country appraisal. To maintain and improve efficiency and effectiveness, development instruments or programmes need to reflect the implications of dynamic national, regional and global changes and be adjusted accordingly.

One lesson learned is that there is a need to establish clear and unambiguous objectives and a few, simple and implementable targets and indicators for each policy or instrument. These should be provided in the design stage, but where this has not occurred, they should be supplied retrospectively. This will help to establish how individual policies, strategies and instruments can be improved on the basis of building on successful experiences and avoiding repeating unsuccessful ones. The targets and indicators concerned should, wherever possible, be quantitative, without being highly technical.

A range of important lessons arises from examining individual policies, institutions and support services, over and above those that serve as the overall economic strategy components of the country. Two closely related points will be mentioned here that could be made in relation to most of the individual policies and instruments. Firstly, until very recently most of the policies and interventions reviewed were designed without clear statements of objectives, anticipated outcomes, or indicators or benchmarks of success and failure in relation to these outcomes. While these issues are currently being addressed for many of the instruments, including all new ones, they need to be addressed for all instruments in active use. Secondly, the absence of such frameworks has increased the scope for evaluators to rely excessively on intuitive tests and qualitative evidence. Evaluation of Tanzanian policies and instruments needs to be consistently thorough, but it can only become fully comprehensive when policies and strategies design takes place in a more coherent way.

The good environment for agribusiness development needs to be conceived from a wider perspective and apart from good policies it should also include issues related to sufficient funding of agricultural development activities, enhancing public-private collaboration, and building of competitive advantages especially in value addition.

Characteristics of Tanzanian agriculture and agribusiness

The United Republic of Tanzania is among the world's poorest countries with a per-capita annual income of about US\$280, with agriculture playing a dominant role in the economy, contributing significantly to food security and rural livelihoods, employment, income, trade, exports, etc. The sector accounts for nearly three-quarters of merchandise, 45-50 percent of GDP and employing around 70 percent of the labour force, especially in rural areas.

Livestock production makes up around 13 percent of GDP and 30 percent of agricultural GDP. Of the latter, about 40 percent are beef production, 30 percent milk production and 30 percent poultry and small stock production. The United Republic of Tanzania's national cattle herd is roughly 13 million. Indigenous stocks predominate, with 237 000 dairy cattle and 121 000 animals in commercially managed beef herds. The agricultural sector is growing at an average of 5 percent. This growth is mainly caused by diversification from cereals to higher value crops, dairy, pig and poultry production, according to the WB (2005)¹².

The main factors influencing change in the agricultural sector are market demand, technology, barriers to entry, input supply, profitability of different niches, and risks or policy environment. For example, growth in tourism has been one of the major driving forces in commercialization of high value products in the United Republic of Tanzania. Between 1991 and 2003, tourist numbers tripled from 186 800 to 576 000; and total earnings from tourism rose from US\$94 million to US\$731 million. (Scannagri and Business Care Services, 2006). Increasing urbanization and incomes are other strong drivers of the economy.

Notwithstanding its socio-economic importance, and the recorded high growth rates in high-value agricultural products, the sector's performance is below its potential. While the contribution of the sector to other economic sectors is important, food security and poverty alleviation remain the central issues that the agriculture sector should address. The United Republic of Tanzania is also lagging in its progress towards targets on reducing poverty and in achieving the MDGs target of halving poverty by 2015. And concerted efforts to bring enabling environments must be intensified.

Achievement of the broad set of MDGs will require an acceleration of growth and greater equality in growth and service delivery. Meeting the specific MDG of halving poverty and food insecurity by 2015 will require an annual GDP growth of at least 6 to 7 percent (Eele, *et al.*, 2000). In addition, this will require further acceleration in rural economic opportunities – both farm, non-farm and management of the United Republic of Tanzania's rich natural resource base. The required rate of GDP growth is substantially higher than was achieved over the last 15 years when growth averaged about 3.8 percent, although in 2004 it attained 6.0 percent.

Over the 1990s, average agricultural growth was 3.6 percent, which was higher than in the 1970s and 1980s when annual agricultural growth averaged 2.9 and 2.1 percent respectively. It grew by 6.0 percent in 2004. Over the 1990s, agricultural exports grew at an annual rate of over 7 percent per year, although this rate has slowed in recent years caused by declining world market prices. Food crop production has grown at a rate of 3 percent which is about the rate of population growth and accounts for about 65 percent of agricultural GDP, with cash crops accounting for only about 10 percent. National data show significant progress towards the objective of a sustained 5 percent growth rate with an increase of the five year moving average agricultural

¹² For more details see URT (2006a) Agricultural Sector Development Programme (ASDP): Support Through Basket Funding & URT (2006b) Agricultural Sector Review; Performance, Issues and Options.

GDP growth rates from about 3.3 percent from 1991 to 2000 to 4.3 percent over the 1999-2003 period (URT, 2006).

Increasing growth, reducing food insecurity, and accelerating poverty reduction, particularly in rural areas, requires an increase in agricultural productivity, higher added value, and improved producer price incentives. These increases also require a consolidation and continuation of long-term reforms, particularly with respect to markets, institutions and investments. Greater emphasis is needed on improved institutional functioning and service delivery, technology adoption, infrastructure development and greater commercialization among smallholders.

Thus, establishing a strategy for growing agriculture and agroprocessing in the United Republic of Tanzania is one of the key measures proposed to move the country towards best practice in investment promotion and facilitation¹³. The government's defined priority actions include:

1. the pursuit of macroeconomic policies that will motivate investment in agriculture by smallholders and large-scale commercial farmers;
2. the creation of an enabling environment; providing proactive support to private operators, farmers organizations, NGOs and community-based organizations (CBOs) supplying inputs and credit to small farmers; and ensuring a strong regulatory mechanism;
3. the concentration of budgetary allocations in agricultural research and extension services; and
4. the provision of special support to investment in agricultural processing particularly in fruits and vegetables, and according top priority to the implementation of the new land act.

General assessment of the enabling environment for agribusiness development

Policy environment and institutional reforms

The government has developed various poverty reduction initiatives including the Agriculture Sector Development Strategy (ASDS) of 2002. The ASDS objectives include creating an enabling and favourable environment for improved productivity and profitability in the agricultural sector and increasing farm incomes to reduce rural income poverty and ensure household food security. It focuses on agricultural productivity and profitability to encourage sector investment and diversification; advocates PPPs in improving access to services and markets; proposes implementation mainly through LGAs; and encourages a shift from reliance on subsistence to reliance on markets for food security. Functionally, the prime minister's office - regional administration and local government and LGAs are responsible for rural development. But most of their activities overlap at national, regional and district levels.

Under the Public Sector Reform Programme the role of ministries is now to facilitate the development of a market-based economy in which the LGAs and the private sector play a critical role. However, the Ministry of Agriculture, Food Security and Cooperatives (MAFSC) retains

¹³ The eight measures were jointly proposed by the United Nations Conference on Trade and Development (UNCTAD) and the Japan Bank for International Cooperation (JBIC) in May 2003. The other measures are: i) Improve the capacity of administrative support to Commercial Courts, ii) develop performance charters for executive agencies that administer business regulations and inspections, iii) Enhance transparency in tax administration, iv) Strengthen the monitoring system for tracking measures agreed upon by the Tanzania National Business Council (TNBC), v) Amend the Tax Revenue Appeals Act (2000), vi) Bring into force the East African Community double taxation treaty, and vii) Jointly issue East African Community member state business visas.

specific responsibilities for food security, among others. The private sector is expected to play two key roles: to invest in production, processing and marketing, and to provide agricultural support services including research, extension, training, veterinary services, inputs, and information services. NGOs, CBOs and farmer organizations have complemented government efforts in the provision of various services including extension, training, inputs, credit and marketing. Under the ASDP it is envisaged that LGAs can contract out some of the agricultural services to farmers to such organizations where it is more cost-effective to do so. At national level there are a number of agricultural sector programmes being supported by development partners and the range of partners involved is wide.

If further macroeconomic policy improvements are sustained, agricultural sector interventions and investment will continue to play a significant role in determining agricultural incentives and growth. Following the start of the general economic reforms (1986-1995), macroeconomic adjustments improved agricultural incentives through depreciations which offset the adverse effect of the significant general decline in world commodity prices. While macroeconomic policy had large positive effect on prices, the producer's share of the border price declined over this period for some key export crops (tobacco, tea and cotton), indicating that sectoral policy did little to improve export price incentives over the late 1980s and early 1990s. From the mid-1990s, there were significant changes to marketing institutions for major export crops (coffee, cashews, cotton, tea and tobacco) resulting in producers receiving a higher share of export price, increasing from an average of 54 percent during 1988-94 to 63 percent during 1994-99, although this varies by crop (URT, 2006). The benefits to farmers of more favorable world export crop prices (on average) were reduced by the significant appreciation over the late 1990s.

Agricultural productivity has improved but not yet to levels to achieve the United Republic of Tanzania's agricultural growth targets. While agricultural (land) productivity growth (using a crude measure of cereal yields) in the United Republic of Tanzania has been higher than SSA in aggregate, it lags other world regions. With sustained decline in real world agricultural prices resulting from the technology revolution, productivity gains will be needed to maintain competitiveness of agriculture.

Agricultural growth has varied across food crops, cash crops and livestock. Within food crops, maize is the most important (accounting for over 20 percent of total agricultural GDP) followed by rice/paddy, beans, cassava, sorghum and wheat. Within cash crops the most important by export value are coffee, cashew, cotton, tobacco and tea. The recent annual average growth rates of export crops, food crops, and livestock has been about 6, 4, and 3 percent respectively (URT, 2006). Investments in greater efficiency and relevance of technology generation and use can yield extremely attractive productivity returns. Much of the past growth in Tanzanian agriculture was the result of area expansion and improvements in the incentive regime. However, there have been recent improvements in yield.

Raising farm productivity and product value require better management of agricultural resources, in particular land and water, and access to improved technologies. Improving the efficiency, relevance and effectiveness of the process of technology generation and dissemination (agricultural research and extension/advisory services and other technical services); investments in local infrastructure, including irrigation; and improving the policy and regulatory environment are advocated as key priorities for continued public support in the Government Agricultural Sector Development Programme.

Investment promotion and facilitation

Pursuant to the Tanzania Investment Act 1999, the Tanzania Investment Centre (TIC) was started as a one-stop shop providing investment incentives and benefits to domestic and foreign investors. TIC has two roles, facilitation and promotion. It is mandated to streamlining business set-up processes – immigration permits, labour issues, tax authority, land, and business licenses and permits. The Act also provides for certain tax incentives and benefits in addition to provide guarantee to all investments against nationalization and expropriation¹⁴. Some of the benefits provided to investors (those holding TIC certificate of incentive) are: permission of 100 percent foreign ownership of a locally registered company; exemption on VAT and import duties; exemption from foreign exchange control; the right to transfer abroad 100 percent of profits, dividends, and capital after tax and other obligations, and automatic work permits for five foreign nationals.

More benefits are also available for EPZ companies as provided by the Export Promotion Zone Act 2002. These include corporate tax exemption for the first ten years of operations; exemptions from withholding tax on loan interest and dividends; exemptions from all levies of local governments, and access to basic infrastructure. As a result of these efforts the United Republic of Tanzania is fast becoming a FDI front-runner in Africa. As market reforms reached critical mass, the United Republic of Tanzania received a billion dollars of investment inflows in 1995-2000 compared with only \$90 million during the preceding six years. The challenge at the time of review was to achieve higher levels of inflows and increase the scale and scope of their benefits.

In recent years, some deliberate efforts have started to promote non-traditional agricultural exports. The TIC indicates that an average of approximately Tanzanian shillings (Tshs) 169.3 billion¹⁵ of new direct investments was annually ploughed into primary farming and livestock production between 2001 and 2005 by the private sector representing 12.5 percent of total annual private sector direct investments (Tshs 1 382.0 billion) in the economy. Agriculture was ranked fourth in attracting private investment. Government spending in the sector has increased in recent years in a bid to promote production and exports. For example, Tanzanian authorities have made issuance of trade permits administratively easier and cheaper. Other reforms include simplified business regulations, strengthened property rights, eased tax burdens, the establishment of the Export Credit Guarantee Scheme, increased access to credit and reduced cost of exporting and importing. The United Republic of Tanzania has introduced electronic data interchange and risk-based inspections at customs reducing the time to clear imports by 12 days. Entrepreneurs now follow 13 procedures taking 30 days to start a business. This reflects a significant reduction from earlier procedures. The government's policy of FDI for retail is favourable with the current lead sectors being agriculture, agro-industries and tourism. Almost half of the total approvals of foreign affiliates during 1990-2000 were in food and beverages followed by hotels and restaurants (38 percent). Some concessions are in place to encourage more FDI. These include a 5-year tax holiday.

The United Republic of Tanzania has been implementing the International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF-III) that came to an end in December 2006 after being extended from August 2006. In what is considered a graduation from PRGF programmes, the government intends to adopt a Policy Support Instrument (PSI) programme with the Fund, under which the United Republic of Tanzania will continue with efforts to maintain

¹⁴ However, the incentives and benefits for investments in the mining sector are provided in the Mining Act 1998.

¹⁵ US\$1 = Tshs1199.0 in April, 2008

macroeconomic stability and implement structural reforms aimed at improving the financial sector and business environment to promote investment.

While the United Republic of Tanzania has been able to maintain progress towards macroeconomic stability, the country is still faced with the daunting challenge of raising the incomes of its people and reducing poverty. Considerable challenges remain in overcoming structural constraints to development including improvement of infrastructure services in the energy, water, transport and communication services as well as fostering local entrepreneurial capacity through improvement of the regulatory environment. The United Republic of Tanzania fares poorly on measures of the business climate, such as the WBs Doing Business Survey in which it ranks 142nd out of 175 countries (AfDB/OECD (2007)).

Public and corporate governance, laws and regulations

Elements of public and corporate governance, laws and regulations include building an anticorruption environment, provision of high quality government services, predictability and consistency of government procedures and regulations, and overall transparency of the government system. Increasingly, like many other African countries, the United Republic of Tanzania is now realizing that a capable and responsible government is a prerequisite for development. Initiatives are underway to reduce bureaucratic delays and uncertainties in servicing the business sector and in ensuring integrity, rule of law, transparency and regulatory consistency to all.

The United Republic of Tanzania's public administration is executed at two levels: the central government and the local governments. Being closer to the local communities, the local governments and regional administrations are capable of influencing the rate and magnitude of socio economic development among the communities. Regional and local governments have vital roles in providing regulatory services and advisory services. In line with the local governments reforms, the LGAs are the major public service providers to agricultural development. For faster development of the sector, local governments have to adopt policies, practices and guidelines which are in line with various national policies governing agricultural development. The local governments are charged with the responsibility to maintain a conducive environment for the growth of economic activities including the establishment and development of agricultural marketing systems.

Promotion of good governance, adherence to the rule of law, promotion of private sector development and opening-up new areas with high economic potential are some of the key issues for both the central and local governments. One of the key areas of central government policy focus is promotion of sustained and shared economic growth. The government is committed to pursuing pro-investment and pro-growth policies. Moreover, the government is committed to promotion of public-private sector partnership and in this regard, the public and private sectors meet under the umbrella of the Tanzania National Business Council (TNBC), a forum of policy dialogue and consultation between the public and private sectors. Academic and research institutions, NGOs, CSOs and others, are also engaged in the dialogue process via a number of other forums such as the Public Expenditure Review (PER) designed to promote wider participation in policy discussions.

In the United Republic of Tanzania corporate governance is considered as an important factor in economic development. The government of the United Republic of Tanzania is committed to ensuring effective corporate governance and has put in place essential legislations for this purpose. The main legislations dealing with corporate governance are the Companies Act, Cap

212 and the Capital Markets and Securities Act 1994. The Companies Act and the Public Corporations Act 1992 provide the regulatory framework for corporate governance in corporations, both private and public companies. The act provides that Tanzanian companies must have a unitary board structure comprising of a balance of executive and non-executive directors, with a minimum of two directors appointed by shareholders at the annual general meeting. The directors must upon appointment, sign and deliver for registration at the companies registry consent in writing to act as directors.

On the other hand all the listed companies in the capital markets are required by law to follow sum recommended best practices in corporate governance as outlined in the capital markets and Securities Act guidelines. The guidelines were developed to promote the standards of self-regulation to bring the level of governance in line with international standards. The guidelines require that the responsibilities of the board of directors should be defined, and that the appointment and qualifications for an effective board plus the remuneration of the directors should also be outlined. Every listed company is required to ensure equitable treatment of shareholders, including the minority shareholders, regarding sharing of information on the company's performance, through the distribution of regular annual reports and accounts. Every shareholder has the right to receive information on voting rules and procedures. They should also have the rights of participation and voting at the general shareholders meeting, to place items on the agenda and be entitled to ask questions or seek clarification on the company's performance.

Human resources development

About 82 percent of the employed working age population in the United Republic of Tanzania is engaged in agriculture. Most of them work on small holdings as self-employed or unpaid family workers. The informal sector is expanding quickly and is considered a growing source of employment, accounting for about 12 percent of the employed working age population. On average, an informal sector operator makes a monthly income much higher than the wages paid by government to its low-skilled workers. It is reported that the formal sector comprising the civil service, parastatals and private firms accounts for about 6 percent of the employed population. Owing to the economic reforms, the private sector has become more important. Most of the Tanzanians earn their livelihood on rural farms. Increased agricultural employment would be realized if infrastructure, education, extension services, land tenure security, efficient input and output markets and availability of consumable goods were developed in rural areas.

Various kinds of training and development strategies are needed to reduce the skill mismatch problem in the United Republic of Tanzania. These include: increasing the rate of employment growth; increase the quantity and quality of educated and trained labour force: and restructure employment (i.e. education and training to reorient the labour force towards skilled and high-tech employment). The implicit strategies for human resources development are: providing, expanding, upgrading and rehabilitating the existing schools and related facilities; providing and expanding industrial and technical training facilities; encouraging the use of information technology and other modern advances in communication; and encouraging the private sector to establish education and training institutions in the country.

Based on the current situation in the United Republic of Tanzania, there is no comprehensive multi sectoral policy on human resources development. Human development efforts and policies in the country are considerably fragmented in different sectors. The major policies in the human resources development sector include: the Education and Training Policy(1995), the National Higher Education Policy (1999), The National Employment Policy (2000), Management and Employment Policy in the Public Service (1998), the Public Policy on the Employment of non-

citizens (1999) and the National Policy on Productivity, Incomes and Prices (1981). The latter is a framework for guiding initiatives to establish production targets and efficiency standards for industrial production, service delivery, motivate workers and peasants, review salaries and minimum wages and improve productivity in the public and private sectors. It is coordinated by the National Productivity Council which is serviced by the planning commission.

Exchange rate policies

The Bank of Tanzania (BOT) exercises a freely floating exchange rate policy. This means the exchange rate of the Tsh against foreign currencies is determined daily in the market depending on the supply and demand for foreign currency against domestic currency. The BOT participates in the foreign exchange market mainly to smoothen out the erratic movements in the exchange rate that are not in line with the economic fundamentals and also to build up foreign exchange reserves to meet the targeted months of imports and other external obligations, while ensuring that the United Republic of Tanzania's external competitiveness is maintained.

The administration of foreign exchange control is undertaken by the BOT through the 1995 Bank of Tanzania Act, which empowers the bank to control all aspects of foreign exchange in the United Republic of Tanzania and Zanzibar, including authorizing payments abroad. Since 1993 the Bank's official local currency rates have been harmonized with those offered by commercial banks and a single exchange rate now applies to all foreign exchange transactions. The single exchange rate applies to both government and private sector imports; and there are no foreign exchange controls on trade although the release of foreign exchange in excess of US\$5 000 requires a declaration form. Since July 1995 the United Republic of Tanzania has accepted the IMF obligations to refrain from imposing restrictions on foreign exchange payments or transfers of capital overseas, from engaging in discriminating currency transactions and from multiple currency practices without IMF approval.

All incentives have a fiscal base, and are delivered through a reduction in, or exclusion from, tax or duty payments to investors in lead and priority sectors with investment above US\$300 000 in the case of foreign investors and above US\$100 000 in the case of local investors. As regards general incentives, until 1997 there were differences between lead and priority sectors on the one hand and other sectors on the other hand with respect to corporate tax as well as between lead, priority and other sectors with respect to import duty on capital goods (which was, respectively, 0, 5 and 10 percent).

The 1997 Act and subsequent fiscal Acts have harmonized fiscal incentives, eliminating differences in VAT on capital goods and carrying forward of losses, further eroding the value of the Certificate of Incentives as a provider of privileges to investors in priority areas. The Certificate continues to serve as a tool to distinguish investors according to the desired threshold levels determined by the 1997 Investment Act. There has been steady progress to making the award of investor benefits automatic.

Tax policies

The administration of various tax laws in the United Republic of Tanzania is entrusted to the Tanzania Revenue Authority (TRA), a semi autonomous agency of the government established by Act No. 11 of Parliament of 1995. Since the inception of TRA in 1996, the government has been reviewing the tax structure, which covers both direct and indirect taxes. The purpose of this exercise, which is a continuous one, is to rationalize the tax system and make it business friendly to local and foreign investors who wish to invest in the country. Rationalization includes

simplification of the tax laws and procedures with a view to enhance tax compliance, deter tax evasion, and expand the tax. The ultimate goal of the review is to increase tax revenue collection.

Some of the tax structure reviewed include: - (i) *Import duty* and other tax rates have been reduced substantially from the highest Customs Duty of 40 percent to the present rate of 25percent while the number of import duty tariff bands has been reduced from seven to three. The three import duty rates are 0percent, 10percent and 25 percent; (ii) the *corporate income tax* rate for both residents and non-resident businesses have been reduced from 35percent to 30percent while the top marginal income tax rate for individual income is now 30 percent. The lowest marginal tax rate is 18.5percent and lowest taxable monthly income is Tshs 80 000 and above; (iii) In 1998, VAT, which is a broad based consumption tax, was introduced to replace Sales Tax, which was being charged at different rates. VAT is charged at a standard rate of 20 percent to all taxable goods and services and 0 percent to all exports. With effect from July 2001, VAT exemptions to the central government, local government and its institutions were abolished. Also import and excise duty exemptions to central and local government and its departments have been abolished with effect from July 2002. However, goods and services for projects, which are financed by donors, voluntary and charitable organizations under the existing laws and special agreements are relieved from VAT.

The review process also considered a number of taxes for abolition. Some of these taxes were considered to be a nuisance to the public as they were frustrating business initiatives and consequently represented an impediment to the implementation of the national investment policy. Also, taxes that had low revenue yield with high collection costs were abolished. Taxes, levies or mechanisms for collecting taxes were abolished during the last eight years so as to make the tax more taxpayer friendly. Apart from abolishing the nuisance taxes, some tax laws, regulations and procedures were amended with the same objective of improving the tax structure. With the same spirit the income tax law of 1973 was repealed and was replaced by the new Income Tax Act No. 11 of 2004, which became operational on 1st July 2004. The new East African Customs Management Act which is now being used in East African has replaced the old one in January 2005.

Starting from the mid-1990s a number of tax reform proposals aimed at promoting agriculture have been made in the United Republic of Tanzania. The reforms are presumed to be conducive to investment in the sector and enabling to productivity of small-scale farming. The setting of enabling environment for agricultural development was in line with the Poverty Reduction Strategy. The predominance of agricultural output in GDP and its massive share of employment to total workforce make it an important ingredient for the strategy's success. The current tax regime includes a number of concessions (see Annex to this country report.).

In recent years the government has placed agriculture on priority expenditures list and increased budgetary allocation to the sector. Government funds allocation to Credit Guarantee Scheme has been strengthened to enable wider access to the scheme by cooperatives and other purchasers of agricultural crops. The 2004/05 budget emphasized the governmental resolve to ensure improved investment and productivity in agriculture: with the object of increasing employment, food sufficiency, poverty alleviation and exports. Tax policy reform measures charted out in the 2004/05 government budget, in particular, were directed towards provision of more incentives to investment flow to the agricultural sector to ensure proper exploitation of the vast unutilized land, generating additional employment in rural community and improving productivity in industries producing agricultural inputs.

Competition policies

Effective participation by any producer in the market is determined by the degree of market accessibility, which is determined by production costs, among other factors. Other factors that determine market accessibility include storage and transport costs, the level of taxation, the cost of utilities e.g. water and electricity, the cost of labour, accessibility of and the cost of financial capital, interest rates charged and land access.

The manufacturing sector in the United Republic of Tanzania is one of the sectors that are suffering high production costs. The sector is still underdeveloped (dominated by food processing, beverages, agribusiness, light manufacturing, and some textiles and footwear) and the competitiveness of local firms is still low, except for a few beverage, beer and cigarette firms, which have been able to compete with imported products. The high production costs in the United Republic of Tanzania are attributed to high costs of utilities and communication services. While in the United Republic of Tanzania demand charge for industrial use of electricity is US\$6.01/kwA, the same unit of power costs US\$2.33 in Uganda and US\$2.68 in Kenya (World Bank, 2007). Telephone charges per minute and connection costs are also comparatively high, whereas in Kenya a telephone connection costs only US\$ 99.70; Tanzanian users pay US\$123.68 (*op cit.*). High production costs in the United Republic of Tanzania make her products less competitive in the international market.

The United Republic of Tanzania's business sector is characterized by high levels of concentration of both ownership and control. Large industries are few and medium sized ones are linked through cross directorship or equity holding. Though barriers to market entry caused by long establishment and licensing procedures have now been eased, there remaining obstacles to entry such as difficult business licensing procedures, the legal framework, a lack of credit, high taxes that limit imports of raw materials and machinery, inadequate local markets, protectionism, and inadequate export markets.

The United Republic of Tanzania competition law is contained in the Fair Competition Act, 2003. The scope and application of the Act extends to all enterprises engaged in business, whether private or public, and covers transactions in the production and distribution of goods and services. As with most competition laws, its application is limited to the national territory and therefore it does not have extra-territorial application. The objective of the Act is to enhance the welfare of the people of the United Republic of Tanzania as a whole by promoting and protecting effective competition in markets and preventing unfair and misleading market conduct throughout the United Republic of Tanzania in order to increase efficiency in the production, distribution and supply of goods and services; promote innovation; maximize the efficient allocation of resources; and protect consumers. The Act covers a number of completion issues including Anti-Competitive Agreements - Restrictive Trade Practices; Refusal or Discrimination in Supply as a Restrictive Trade Practice; Collective Tendering and Bidding; Merger Control; Control of Monopolies and Concentration of Economic Power; Regulation and Display of Prices; and Consumer Protection

To effectively implement the fair competitions policies and laws, various regulatory instruments have been developed. These include both the regulations and regulatory institutions. The institutions established to supervise the implementation of the competition regulations include the Fair Competition Commission (FCC) and Fair Competition Tribunal (FCT). While the FCC is responsible for the overseeing the implementation of the Fair Competition Act and its regulation, the FCT is responsible for dispute management and settlement. To facilitate effective functioning of the Act some specific institutions have been established to monitor and regulate various sectors in the economy. These include for instance the Energy and Water Utilities

Regulatory Authority (EWURA); Surface and Marine Transport Regulatory Authority (SUMATRA); Tanzania Communications Regulatory Authority (TCRA); Tanzania Civil Aviation Authority (TCAA); and National Consumer Advocacy Council (NCAC).

Trade policies, tariffs and quotas

The United Republic of Tanzania's trade policy has witnessed an evolution of efforts implemented throughout the 1990s to integrate trade issues into broader development concerns. These efforts culminated into the current National Trade Policy (NTP) of 2003. The NTP was developed to oversee a competitive economy and export led growth where trade liberalization and investment promotion are key elements of the United Republic of Tanzania's overall development framework. It envisioned a role for the government in selective interventions and efforts to conform to WTO rules and regulations. In this regard, the trade function is seen as a central and pivotal pillar in the attainment of the mission of the economic sectors towards higher efficiency, productivity and international competitiveness.

In an effort to reduce compliance costs of customs, regulatory and administrative procedures at the borders, there have been some significant customs reforms in the United Republic of Tanzania recently to streamline the operation of customs. These included among others, the gradual introduction of the Automated System for Customs Data (ASYCUDA++), now used by the Customs and Excise Department of the Tanzania Revenue Authority (TRA) since June 2005; the establishment of a destination inspection regime (DIS) since July 2004; and developments in the implementation of the 2004 EAC Customs Management Act (in force since 1 January 2005). Since 1 January 2005, some of the United Republic of Tanzania's trade policy instruments, customs tariffs in particular, have been set at the EAC level. The move from the national tariff to the EAC common external tariff (CET) resulted in an overall decrease of average tariffs on imports into the United Republic of Tanzania from MFN tariff rate of 13.5percent, to an average of 12.9 percent.

Another development toward reducing compliance is the fact that imports into the United Republic of Tanzania may now be channelled into a red line (high risk) for document and physical inspection before clearance, a yellow line (medium risk) for document inspection and x-ray scanning or a green line (low risk) for automatic customs clearance. The customs line is recommended on the basis of Tiscan Computerized Risk Management System (CRMS)¹⁶. Import clearance at Dar Es Salaam Customs Centre has been reduced from nine days before ASYCUDA++ to an average of two hours, while Airport clearance went from three days to 22 minutes (WTO, 2006).

The development of industry and trade in the United Republic of Tanzania is under the guidance of Ministry of Industry, Trade and Marketing (MITM) formerly the Ministry of Industry and Trade. The 2003 National Trade Policy replaces the Sustainable Industry Development Policy of 1997 where trade had no coherent policy but was implemented under the control of various ministries and departments without proper coordination. The MITM now together with relevant ministries and other institutions that also take part, directly or indirectly, in trade policy formulation and/or implementation continues to have the leading role in formulating, implementing, and coordinating the United Republic of Tanzania's trade-related policies. Nonetheless, the private sector and NGOs continue to provide input into trade policy formulation primarily through trade associations (e.g. Confederation of Tanzanian Industries, and Tanzanian Chamber of Commerce, Industry and Agriculture).

¹⁶ In principle, the Customs and Excise Department of TRA has the power to alter the risk status recommended by Tiscan. However, this is rare for goods under US\$5 000 (Integrated Framework, 2005).

Since the country is a member of the various multilateral and regional trading systems including EAC, SADC, GSPs of mainly Australia, Canada, EU, Japan, New Zealand and the United States, AGOA, Global System of Trade Preferences among Developing Countries (GSTP) and the WTO, investors in the United Republic of Tanzania have access to large expanded markets as well as preferential treatment for their products. The United Republic of Tanzania offers a well balanced package of incentives to investors who have chosen the country as their investment destination. These incentives have been devised to: compensate and reward investors for their entrepreneurship; match the changing needs of the country; channel investments in the direction most needed for economic development, and ensure growth with social equity. Following the enactment of EPZ Act in April 2002, the government has adopted the EPZ concept as a policy option for export oriented industrialization and economic development. In order to attract serious investors into EPZs and realize maximum return from these measures, the government is striving to provide all essential requirements such as streamlined operational procedures, infrastructure such as rails roads and air transport facilities, plus reliable availability and reasonable priced utilities such as water and electricity.

Apart from tariff measures as trade policy instruments, the following non-tariff measures are applicable in the United Republic of Tanzania: import licensing and registration; customs valuation; Trade Related Investment Measures (TRIMs) such as local content requirements; standards; state trading; government procurement procedures; and administrative procedures. The government acknowledges that the obligation emerging from participation in the WTO is the gradual elimination of non-tariff measures and their replacement with tariffs as the instrument of protection, where necessary. The ultimate objective is to phase out non-tariff measures through tariffication. The United Republic of Tanzania is already implementing a strategy for the tariffication of non-tariff measures in line with WTO obligations.

Business registration and development services

The goal of the United Republic of Tanzania trade policy is to facilitate smooth integration into multilateral Trading Systems and rollback the gradual descent towards marginalization. It is intended to ensure that liberalization of the economy offers meaningful, identifiable and measurable benefits. The MITM has two executive agencies under its umbrella, namely the Business Registration and Licensing Agency (BRELA), which is responsible for registration of both local and foreign companies, registration of business names as well as trade and service marks. The agency is also responsible for granting patents, overseeing copyright and neighbouring rights administration in the United Republic of Tanzania as well as industrial licensing, while the Weights and Measures Agency (WMA) is responsible for fair trade transactions through certification of weights and measures.

The Business Licensing Act 1972 has recently been replaced by the new Business Activities Registration Act 2005. In order to trade, all companies must be registered with the BRELA. The application process varies depending on the entity being registered. Each application contains the following information: name of the business; date of commencement; name and nationality of owners; nature and core of activity of the business; nature of any auxiliary activity; number of employees; business address; and chief executive or anyone in charge in the company. Private companies must have at least two directors. After obtaining name clearance from BRELA, a foreign-based company is issued a certificate of compliance for a fee of US\$1 100; a local company is issued a certificate of incorporation for a minimum fee of Tshs 121 200 (this varies with the amount of capital)¹⁷.

¹⁷ Tanzania Investments Centre online information.

As far as provision of business development services is concerned, there are substantial numbers of private trainers in the United Republic of Tanzania operating on a self-sustaining, commercial basis offering trainings, technology advisory services and training, business management and consultancies. The business development service providers in the United Republic of Tanzania are concentrated in Dar es Salaam, though they exist as well in substantial numbers in the regional and district headquarters. Business operators in the United Republic of Tanzania have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries.

Although the United Republic of Tanzania is endowed with a rich natural resource base it is still a least developed country, the challenge being the ability to transform efficiently and effectively the resources into goods and services that can be availed to the market at competitive prices. One of the major limiting factors is the lack of entrepreneurs at different levels. Some of the traditions, perceptions and values have tended to create a culture that is anti-entrepreneurial. Furthermore, past policies limited individual entrepreneurship initiatives. In addition, the education system has tended to create employment seekers rather than job creators.

In this millennium information has become a prime mover of all economic undertakings. However, the situation of businesses in the United Republic of Tanzania is that of limited access to information caused by lack of awareness on its importance and the prohibitive costs of acquiring the same. Technology advancement and transfer are important aspects for SMEs development. SMEs have limited access to technology development partly because they lack the relevant information. The problem is further compounded by the existence of industrial support institutions which are weak and do operate in isolation without focusing on the actual requirements of the SME sector. Furthermore, technologies available are not disseminated to the potential clients. In addition, SMEs cannot afford the services provided by the relevant institutions. As a result of the above, SMEs continue to hold on to poor and obsolete technologies.

The institutions supporting the businesses are weak, fragmented, uncoordinated and concentrated in urban areas. Currently, numerous stakeholders made up of government ministries and agencies, private sector associations, NGOs and development partners are involved in the development of programmes aimed at supporting the SME sector in the United Republic of Tanzania. Most of their programmes are ineffective and their efforts are uncoordinated. Although the government has put in place a number of industrial support organizations, including the Small Industries Development Organisation (SIDO), these institutions are ill equipped in terms of equipment, personnel and operational funds, and therefore, unable to discharge their mandated responsibilities. Furthermore, it has been established that government officials responsible for development of the sector do not have adequate knowledge, skills and SME orientation to create the desired enabling environment for the sector.

Norms, standards and regulations

The Tanzania Bureau of Standards (TBS) is charged with the administration of standards, labeling and certification issues. TBS is a member of the ISO as well as the Codex Alimentarius of the United Nations Food and Agricultural Organization and has been notified to the WTO as the contact point for issues related to the Agreement on Technical Barriers. Most Tanzanian standards are voluntary in nature and TBS adopts international standards whenever they exist. SPS standards are the responsibility of the ministry of agriculture, food security and cooperatives,

which conducts an inspection and certification programme for all imports of plant and animal products. The TBS with 572 published Tanzanian standards is a parastatal entity operating under the ministry of industry and trade. Of these standards, 105 are adopted from ISO/IEC standards and approximately 400 are voluntary standards. Tanzanian standards requirements do not distinguish between imported and domestically produced goods. Domestic products and imported products must meet Tanzanian standards of conformity. Upon conformity, Tanzanian products are issued a TBS mark certificate, and imports are issued a batch certificate.

A certificate of conformity must accompany every import consignment. The certificate fee is 0.2 percent of the cost and freight. If there is no certificate, the TRA will hold the goods until they have been tested and conformity is confirmed. TBS fully recognizes the testing procedure performed by its counterpart organizations in exporting countries. TBS generally does not test exports unless specifically requested by the exporter. Labelling and packaging requirements are not harmonized in the United Republic of Tanzania. Regulating entities include TBS, the Tanzania Pesticide Research Institute, the Pharmacy Board and the National Standard Mark of Quality to foreign, the Tanzania Foods and Drugs Authority and the National Food Control Commission.

Specific issues for agribusiness and agro-industry development

Microfinance services

In the United Republic of Tanzania, as in other parts of Africa, lack of credit severely constrains sustainable agricultural development. Deficient or inappropriate collateral, credit rationing, lender preferences for high-income customers borrowing large amounts, and bureaucratic procedures in the formal financial sector are often identified as key factors contributing to low access to credit among most rural dwellers. Without credit, the millions of cash-starved smallholders who dominate the rural landscape are unable to adopt most productivity-enhancing technologies. Low-return, diversified, subsistence-oriented production practices therefore continue to underpin most rural livelihood strategies.

Banks have a big role to play in the development of any economy, particularly as regards lending to the productive sectors. However, banks in the country are not doing enough in this area and there are reasons for this phenomenon. Banks are in business and had to lend with caution, particularly in an environment in the United Republic of Tanzania where a non-repayment culture is still common. In addition, there exists excessive litigation, injunctions and court delays, situations which make banks incur unnecessary expenses in addition to loss of income and disrupted cash inflows caused by delayed payments. For instance, in the case of small loans, which have of late become a major thrust for many banks in an effort to supplement government efforts to reduce poverty, the cost of collection tended to exceed returns to the lending bank. Statistics show that as at the end of 2006, total customer deposits stood at Tshs 5.3 trillion, an increase of 221 percent from Tshs 1.7 trillion in 2002. Total loans and advances, on the other hand, increased at a higher rate of 320 percent from Tshs 566.6 billion in 2002 to Tshs 2.4 trillion in 2006.

While that is a remarkable growth and reflected robust underlying economic expansion driven by good policies and governance, there was some distance to go to catch up with more developed economies where bank assets exceeded a country's GDP and often by a factor of 1:5 or more. Banks had to have some assurance that a borrower would be able to repay a loan. With liberalization of the financial sector in the 1990s, credit facilities for input supply and marketing collapsed as interest rates rose and shut out the subsidized sources of credit on which such

schemes depended. Most cooperative unions—which were already struggling financially—could no longer access loans and were, in turn, unable to service small and medium-scale farmers. Private banks sprung up, but under the more competitive liberalized financial system, they could not profitably fill the gaps left by cooperatives. The sharper focus on profitability and actual financial risks therefore worked against traditional lending to the rural sector, and to agriculture in particular.

These barriers to rural lending in the formal and informal financial sectors have become a major concern for policy makers in the United Republic of Tanzania. One outcome of that concern is increased interest in semi-formal microfinance institutions, which are responsible for increasingly large shares of credit in both urban and rural areas. Most of these microfinance institutions are not profit-seeking banks but rather are run as not-for-profit nongovernmental organizations. These features of microfinance organizations raise a number of issues regarding their viability, and, more importantly, about their ability to meet the borrowing needs of rural dwellers, including farmers.

Despite the fact that rural microfinance institutions in the United Republic of Tanzania are rather new and operate in a difficult environment, they are playing a very important role in the agriculture sector development. It is evident that designing, experimenting with, and building microfinance institutions, for smallholders, requires new thinking and access to new resources. Public policy will need to support and evaluate this experimentation process and nurture those designs or institutions that hold promise for future success. The government, donors, practitioners and research institutions must work together closely to identify costs, benefits and future potential of emerging microfinance institutions in rural areas. Appropriate incentive structures must be established so that all actors have a stake in a well functioning microfinance system. Greater clarity of distinct responsibilities for developing rural financial systems between the state, on one hand, and microfinance institutions, on the other, would promote such an outcome.

Land tenure and access to land

The United Republic of Tanzania has different land tenure systems covering clan land, village land, public and urban land. The land tenure system has undergone changes since colonial times, the most profound of which included the declaration that all land is to be publicly owned by the head of state in trust for the whole nation with different legal regimes applying to rural and urban areas. The encouragement of foreign investment led to the enactment of the National Investment (Promotion and Protection) Act, 1990, and the establishment of the Investment Promotion Centre (IPC) under the president. This government action spurred the investors for leasing the land in large scale.

Two separate Acts, namely the Land Act No. 4 and Village Land Act No. 5 both enacted in 1999 guide issues related to land acquisition and use in the United Republic of Tanzania. The new land laws came into operation, in May, 2001. However, foreign business penetrations were somewhat restricted by not providing freehold tenure in the Act, and by obliging them to get the approval of the village council and the Commissioner of Land, when they want to acquire the leasehold from any village land.

Under Section 4 (1) the Land Act, 1999, all land in the United Republic of Tanzania belongs to the state. Land can, however, be owned in three different ways 1) Government granted right of occupancy, 2) TIC derivative rights, and 3) Sub-leases created out of granted right of occupancy by the private sector. Rights of occupancy and derivative rights are granted for a short term and

long term period. Long term rights of occupancy periods range from 5 - 99 years and are renewable, but for not more than 99 years. Long term leases derivatives rights and leases range between 5 - 98 years.

Application by a non citizen or foreign company should be accompanied by a Certificate of Incentives granted by TIC under Tanzania Investment Act, 1997. Under Section 19 (1) of the Land Act 1999 citizen investors or group of them may acquire land by a granted right of occupancy or a derivative right or by obtaining a sub – lease from private sector. Occupation of land by non-citizens is restricted to lands for investment purposes under the Tanzania Investment Act, 1997. Under the Land Act, 1999 a foreign investor may occupy land through: Derivative rights under section 20(2) of the Land Act, 1999; Application to the Commissioner for Lands for grant of Right of Occupancy under section 25(1)(h) and (i) of the Land Act, 1999; Sub-leases from private sector; Licenses from the Government; and Purchase from other holders of granted Right of occupancy. Land designated for investment purposes shall be identified, gazetted and allocated to TIC, which shall create derivative rights to investors.

Instances of grant of right of occupancy to a non-citizen are recognized under section 19(2) of Land Act, 1999. Section 22(1) (ii) allows the granted right of occupancy to be capable of being a subject of disposition. In this later case a right of occupancy can be disposed of from one holder to another provided the land will be sold to and acquired by a non-citizen if it is for investment purposes endorsed by TIC. Another way in which non-citizen investors can acquire land is by obtaining sub-leases from the private sector or through Government Licenses. However, procedures to acquire land differ depending on the type of land. During application fees payable include: - Survey Fee; Registration Fee; Preparation Fee and Stamp Duty all of which are variable. Land Rent Charges ranges also varies depending on type of land and the market value of the land in question, however they are set very low as an incentive to investors. Another development in land tenure and access has been the signing of the Land (Amendment) Act of 2004. This was done to facilitate the use of land as collateral.

Until recently, the country's policies and regulations did not provide land as collateral for borrowers in the agricultural sector despite the fact that land is a critical security that farmers possess to offer for borrowing from banks. Things have changed since farmers could now use land as collateral and many banks had gone public on what packages they could offer to farmers and agricultural investments. However, banks still could not lend that effectively and in bulk to subsistence farmers and this was another area that needed to be worked on.

Infrastructure development

The overall structure of the transport sector in the United Republic of Tanzania consists of four main subsystems, which include (a) a road network criss-crossing the country (b) two railway systems – the United Republic of Tanzania – Zambia Railway Authority, which links Dar es Salaam with Zambia, and the Tanzania Railways Corporation (TRC) which serves the central northern and Lake regions (c) the four main seaports of Dar es Salaam, Zanzibar, Tanga and Mtwara and (d) a civil aviation subsector consisting of Air Tanzania Corporation (ATC), several small airlines, two international airports of Dar es Salaam (DIA) and Kilimanjaro (KIA), and more than 60 smaller domestic airports and air strips. Road transport is by far the most dominant mode of transport accounting for more than 70percent of the total internal traffic flows (MCT, 1999). Roads are usually classified into three levels: (i) national or primary roads connecting capital cities, which serve as the main linkages to other countries, the sea, and other strategic points; (ii) regional or secondary roads connecting regions within the country; and (iii) municipal, local and tertiary roads connecting towns within a zone. Tertiary roads are further divided in rural

and urban roads. Practically all countries have this typical classification system (Wasike, 2001), the United Republic of Tanzania being not an exception in this respect.

Total road network in the United Republic of Tanzania is estimated at about 80 000 km of which 60,000 km forms the classified network. Within the classified network 13 067 km are trunk roads, 17 730 are regional roads and the rest are district roads. About 3,800 km of trunk roads (4 percent of total road network) are paved. In addition there are about 30 000 km of unclassified roads, which are managed by parastatals, national parks and village councils. Trunk roads constitute the primary road network. Regional roads are the second layer which links up the trunk roads with the regional and main district centres (MOW, 2003). The road system is divided into 9 main traffic corridors, namely TANZAM, Northeast, Southern Coastal, Central, Lake Circuit, Southern, Great North, Western and Midwest corridor.

Best practices and lessons learned

In order to enhance competitiveness and efficiency in the country a number of innovations have been tried successfully. This section summarises some of the best practices and lessons that have been learned from them.

Case studies of best practices

Building competitive advantages in cashew industry

In the 1960s and 1970s the United Republic of Tanzania was a leading cashew nut producer with output of unprocessed nuts amounting to 145 000 MT in the early 1970s. However output declined to less than 20 000 tonnes by the mid 1980s. Efforts to revive production led to output rising to a record 164 000 MT in 1998 (compared to 313 000 tonnes by India, the leading world producer). Although output of raw nuts declined substantially to 102 000 MT in 1999 and 95 000 in 2001, exports earnings declined to US\$107 million in 1998, further declined slightly to US\$100 million in 1999 and then more dramatically to a mere US\$57 million in 2001. This was attributable to an inability to influence the raw nut market and failure to add value to the United Republic of Tanzania's cashew exports.

During the 1980s the United Republic of Tanzania invested in ten large processing plants to produce kernel nut for export. Problems attributable to inappropriate strategies underpinning these large capital investments culminated in failure to compete in the market for processed kernels and recourse to export of raw nuts, in spite of large investment in capital intensive processing plants. In the 1990s the United Republic of Tanzania resorted to export of raw nuts to the Indian market where it is processed to kernels and re-exported to large brand processors and distributors in the industrialized countries. In terms of the value chain, the United Republic of Tanzania has been pushed to the low value, high cost links of the supply chain, characterized by low returns, while Indian importers and processors have managed to internalise the medium return parts of the supply chain. The highest returns are still in the hands of the large international brand houses.

Tanzanian efforts to internalise parts of the supply chain that offer higher returns are based on a strategy that includes installation of new processing capacity based on high labour and low capital input that facilitates higher quality nut at the processing end. Additional efforts are being undertaken at the farming end through promotion of measures for the certification of organic farming, taking advantage of the fact that most cashew farming is already organic by default and what is required is establishment of acceptable records systems for certification purposes. Finally

the strategy includes initiatives for market diversification targeting the organic product market and the kernel market.

The envisaged returns from this strategy are substantial, as can be discerned from the data on value added in processed nuts. To illustrate, about 3.5 tonnes of raw nuts yield one tonne of kernels and 315 kg of CNSL (cashew nut shell liquid). The net export value of 3.5 tonnes of raw nuts is US\$3 375 (at US\$750 per tonne free on board). Export of kernels earns the average of US\$5 000 per tonne, apart from a CNSL output with a value of US\$125. CNSL is used primarily for the manufacture of industrial resins for paints and brake linings.

Value added in exporting kernels rather than raw nuts amounts to 35 percent of the value of raw nuts. This value can be internalised by countries like the United Republic of Tanzania, subject to formulating and implementing a successful strategy based on creating competitive advantages at the processing stage combined with market diversification. Innovation and creativity at the farming stage based on organic farming is bound to lead to even more dramatic returns even without changing current output levels.

KATANI Ltd - Case of public-private collaboration in research and development

KATANI is a private company registered in the United Republic of Tanzania. It is owned by Highland Estate Ltd (75 percent), African Mpya (15 percent) and Mkongwe Investment and Management Company (10 percent), and has three main objectives: to grow sisal for fibre production; to conduct research aimed at developing new varieties of sisal suitable for various end-users; and to develop and disseminate new technologies in cultivation and processing of sisal. Part of the future for sisal production in the United Republic of Tanzania can be the commercialization of smallholder farmers. In fact, this commercialization is already happening. In 1998, a Sisal smallholder and Out-grower (SISO) Scheme was introduced in five estates in Tanga Region. Katani Limited has allocated more than 12 000 ha of sisal to 2 500 farmer families. The Company has provided some of the farmers with loans and offers extension and technical services to them. The farmers in the SISO scheme grow sisal as well as seasonal food crops like maize, legumes and sunflower and at some places sugar cane and rice. Knowing that the need for extension services is critical for increasing productivity of sisal and of their food crops, Katani Limited has agreed with the local government in Korogwe district to be appointed to provide extension service to sisal smallholders in and around the estates.

In collaboration with the Korogwe District through the DALDO's office the sisal farmers SACCOs in the estates have successfully applied for assistance through the Participatory Agricultural Development and Empowerment Project (PADEP) initiative to get support for sisal nursery, infrastructure and field maintenance development that will promote the growth and expansion of the farms increasing efficiency, quality, marketability and the value chain. Katani is undertaking the biogas/electricity production trials on behalf of the world's sisal producers under a seven-year old sisal development project, "Product and Market Development for Sisal and Henequen Products," whose first phase ended in 2006. The US\$ 5.3 million project is co-financed by UNIDO, the Common Fund for Commodities (CFC), IFAD, the Belgian Government and counterpart contributions from the United Republic of Tanzania and Kenya. KATANI Ltd. in collaboration with Mlangoni Agricultural Research Institute (MARI), established under the Ministry of Agriculture and Co-operatives to conduct research on sisal, are planning and implementing a joint project on Meristematic Tissue Culture of sisal. To-date the project has just finished renovating a Meristematic Tissue Culture lab that will be used by both institutions for rapid multiplication of elite sisal varieties. It is envisaged that when this lab is fully operational, it will have adequate resources and capacity to produce pathogen free materials to

meet the ever-increasing demand of improved planting materials in the sisal estates of the United Republic of Tanzania

With the potential of over 20 million tonnes demand in the worldwide market, there is a significant potential for Katani Ltd. initiatives in sisal contract farming through a number of programmes, such as the promotion of rural entrepreneurs in farming activities and in facilitating small industries in rural areas.

TATEPA – Diversification into financing smallholder tea growers

TATEPA (Tanzania Tea Packers) is a tea packaging company that has diversified into financing smallholder tea growers. It was founded by British-based CDC Capital Partners along with the Tanzanian Venture Capital Fund in 1995. In January 2006 CDC's holding in the company was transferred to the new Actis Africa Agribusiness Fund. Tatepa's Chai Bora tea is the United Republic of Tanzania's biggest-selling brand and the company now controls around 55 percent of the country's tea market. The firm was the first private company to be listed on the Dar es Salaam Stock Exchange in 1999 and the first to acquire equity in a tea estate through a share swap that substantially raised its capital base. It also became the largest integrated tea business in Tanzania, following the recent purchase of Kibena Tea Estate in Njombe District, also in the southern highlands. The Kibena Tea Estate was previously owned by the British-based CDC Capital Partners. Tatepa provides employment to 27 000 people (including outgrowers). The farm produces about 4 000 tonnes of tea per year. Tatepa's expansion and vertical integration in the tea industry started in 2000 with the acquisition of WTC, which owns two factories. Since Tatepa took over, the smallholders have enjoyed a 50 percent increase in the price they receive for the green leaf, which has also resulted in improved quality. Tatepa has been growing steadily, winning Fair-trade accreditation and developing an agreement with Cafédirect to supply black tea from the estates for their Teadirect brand. This gives producers a guaranteed minimum price of US\$1.45 per kilogram of green-leaf tea, even if wholesale prices fall below that of the open market. This gives smallholders peace of mind and some level of security. The Fair-trade premium of US\$0.50 for every kilogram of Teadirect tea sold has gone towards the Teadirect Premium Fund which has helped finance local projects, such as new schools, text books, and health centres.

Innovation in Rural Finance through Contract Farming

Rural finance, covering the broad range of financial services such as savings, credit, payment transfers, leasing, insurance, etc. provided by formal and informal financial services providers operating in rural areas, is very important in the United Republic of Tanzania, especially to the majority rural poor. Rural finance in the United Republic of Tanzania is provided by four categories of institutions: and banks such as CRDB, NMB, KCB, Exim Bank, plus member based organizations and associations such as cooperatives (especially SACCOS and some cooperative unions), NGOs (e.g. PRIDE, MEDA, SEDA, and FINCA), large companies financing through contract farming, government and public sector institutions (e.g. SIDO, PTF, WDF, YDF, local councils).

Dimon (T) Limited is a tobacco leaf processing company that is a supplier of tobacco to the Tanzania Cigarette Company (TCC) and deals directly with tobacco farmers through the already existing primary cooperative society.

Dimon has learned lessons from the collapse of a vast number of companies that have failed in the tobacco market caused by outstanding debts. Instead of dealing with individual farmers, the

company tends to deal with the primary cooperative society leaders who distribute the money paid in advance to farmers as a means of buying supply inputs such as seeds, fertilizers, equipment, etc. In this arrangement, repayment rates are high and provision of *complementary technical assistance is made easier*.

Interchick - A vertical integration model for poultry production and processing

Interchick operates a vertically-integrated operation consisting of feed mills, hatchery, contract growers and a processing facility. They provide the feed and chicks to 10 contract growers, with plans to expand this to a further thirty. The application of good production practices has reduced animal mortality from 30 percent to 10 percent. To facilitate the growing product demand and the shortage of eggs, Interchick imports processed poultry products, and chicks and eggs from its base in Kenya. Factors limiting expansion include the logistics of distribution, limitations of hatchery equipment and capacity, availability of eggs, need for slaughter line upgrades and maintenance, limited human resource capacity and high cost of available investment capital.

Expansion strategies for Interchick include the purchase of another refrigerated truck to enhance distribution, modification of the slaughter line to improve efficiency, expansion of the hatchery facilities from 260 000 to 600 000 (three week cycle), increasing the number and volume of grower contracts, consumer awareness programmes, implementing value-added processing and the adoption of quantity management programmes and HACCP-based systems. Future initiatives include identifying alternative sources of feed protein, such as soy, to minimize the risk of introducing salmonella and eliminating the quality issues sometimes associated with a fish protein based diet i.e. fishy smell and taste. The company is seeking to export its products in the future to neighbouring countries.

Using mobile internet and telephony to support community networks and networked learning

A recent case study research undertaken in the country identified a number of candidate technologies for improving the timely flow of information to rural sub-Saharan communities. Whilst the original study considered this in terms of availability of market information to smallholders, the same infrastructure can and should be used for enabling the education and other forms of capacity building for the community as a whole. The research noted that the rapid growth of the mobile phone networks and markets in these areas is already resulting in technological, social, and cultural changes. This is a global phenomenon, however, and as such the researchers felt that work that is already taking place in countries which have by now started to experiment with technologies (which are currently emerging in developing nations), can be used to identify issues and lessons learned. This information can not be viewed in a meaningful way only by developing countries, but can also be used to improve understanding in the developed world. Indeed, findings from different countries may help researchers anywhere to gain an improved understanding of how their practices are both similar and different, and where these similarities and differences lie. By engaging in this process, a wider community of practice can develop that would benefit all parties involved.

Lessons learned

The analysis presented in the case studies poses a number of interesting lessons as far as enabling environments for agribusiness and agro-industry development in the United Republic of Tanzania are concerned. First, there are irreversible forces of change that call for new policy and institutional innovations. These include diminishing public financial contribution, increasing

pressure from external markets and forces, and increasing shift towards more knowledge-intensive and information based industries. Second, networks are powerful tools and mechanisms for improved dialogue and synergies, by linking competitors and collaborators, sharing financial and physical resources, and joining human capacity across sectors and organizations. Third, there is a presence of modest and mild attitudes between the public sector and the private sector. Whereas the public sector often perceives private companies as mere profit maximizers, the private sector often criticizes the bureaucracy and inefficiency of the public sector. Finally, not all partners understand the usefulness of partnerships and lack of strong linkages between institutions and the industry may limit the scope and functioning of PPPs.

However, and especially from the case studies, it is observed that key success factors include capacity building, producer empowerment in issues such as good agricultural practices, contracting which enhances credit access and prompt payment to farmers, stronger market linkages emanating from strengthened PPPs, enhanced dialogue among stakeholders, flexibility to create appropriate organizational and management structures, gender balance, ensuring sustainability (e.g. by establishing SACCOs), good governance (e.g. strict accounting, monitoring and quality control), enhanced competition, and access to improved technology.

Apart from some successes, there are also some persisting challenges that limit the capacity to attain the full potential of sector development strategies. These include a) cultural-political hang-over where farmers are used to receiving supply-led (rather than demand-driven) public goods such as extension services, lower protection from cheap imports, and weak regulatory systems and policy. All these lead to weak market efficiency and linkages as well as low competitiveness.

Conclusions and recommendations

The agriculture sector remains the backbone of the economy of many African countries, contributing significantly to food security and rural livelihoods, employment, income, trade, exports, etc. Notwithstanding its important socio-economic importance, the sector's performance is not only below its potential, but it has also been declining. While the contribution of agriculture to other economic sectors is important, food security and poverty alleviation remain the central issues that the agricultural sector should address. It has been noted that Africa is the only region of the developing world where the average food production per capita has been declining over the past 40 years (African Union, 2007). To reverse this alarming trend, it is imperative to take measures that would provide enabling environments for agribusiness and agro-industry development in Africa.

As Collier and Venables (2007) note, for Africa to diversify its exports into manufacturing may require a catalyst to create clusters of activity and lift them to threshold productivity levels. Their evidence suggests that – given the right conditions – it is possible for African countries to accelerate their modern sector export growth. Designing policy to promote such growth requires recognition of a number of features of modern global trade, including the fact that domestic and international policies are complements. Domestic policy needs to ensure a good business environment and infrastructure. However, as Stevens and Kennan (2006) stress, such domestic measures should occur in parallel with a strategic review of agricultural trade policy.

Another important development relates to the growing FDI. In Tanzania there has been a steady increase of FDI inflows into the economy. The increase in foreign investment has been encouraged by the country's investment environment, which has improved and become more predictable. The great mass of FDI is accounted for by projects involving mining and tourism.

Tanzania has a high degree of economic openness, although for a long period of time its development policy was more inward looking.

The financial sector reforms are still in progress, but there is increasing concern that most of the rural population have not benefited from the financial reforms. They have largely been bypassed by these reforms. This means that microfinance services are inadequate and do not solve all the agricultural sector problems. It is certainly an illusion to think that microfinance alone will lead to the sector's development. Agricultural sector development requires complementary services (e.g. infrastructure, marketing services, extension, etc.). If a clear orientation is taken towards agricultural development, the public sector must invest in these operations, since even sustainable microfinance institutions will not be able to fulfill their role in the absence of essential complementary services.

Despite the fact that rural microfinance institutions in Tanzania are rather new and operate in a difficult environment, they are playing a very important role in the agriculture sector development. It is evident that designing, experimenting with, and building microfinance institutions for smallholders, requires new thinking and access to new resources. Public policy will need to support and evaluate this experimentation process and nurture those designs or institutions that hold promise for future success. The government, donors, practitioners and research institutions must work together closely to identify costs, benefits and future potential of emerging microfinance institutions in rural areas. Appropriate incentive structures must be established so that all actors have a stake in a well functioning microfinance system. Greater clarity of distinct responsibilities for developing rural financial systems between the state, on one hand, and microfinance institutions, on the other, would promote such an outcome.

Infrastructure development implies that more work needs to be done in order to improve hardware infrastructure. At the same time, provision of software infrastructure should be encouraged, because some initial studies show that this is feasible.

The traditional concept of comparative advantages is an approach to international trade relationships with specialization based on national resource endowment. Accordingly, since Tanzania is rich in natural resources and has ample farming land, its economy should specialize in the production and export of commodities – agricultural products and minerals. Conversely, the industrialised countries, Tanzania's leading trading partners, have comparative advantages in capital resources (both finance and human capital) hence are better fit to specialization in industrialization processes that are necessary to convert commodities into end-user products.

In the competitive advantage approach, the deciding factor in international trade relations is technology. At the micro level, firms can create a competitive edge over others through innovation leading to better ways of doing things at any level of the product cycle and of the value chain – marketing, product transformation, finance and management. In a global market, competition also takes place between nations and depends on national competitive platforms that elevate the competitiveness of firms.

Policy-making in most African countries, Tanzania included, have only recently embarked on initiatives to formulate and implement export development strategies based on the tenets of competitive advantages. For instance, Tanzania's initiatives are largely limited to work undertaken under the JITAP programme and a range of donor supported intervention schemes for private sector development in the agricultural and manufacturing sector. Many of these schemes are still in the incubation stage and are yet to bear fruit. Strategies for trade development including export strategy formulation are only beginning to receive the deserved attention from public and private

sector institutions. This attention is substantially reflected in export development efforts underwritten by institutional reforms of the supporting framework targeting re-orientation towards trade development.

What emerges from these lessons is that while a trend is emerging in institutional reforms, such that the sustainability of the ongoing agricultural transformation could take an irreversible course, there are a number of constraints, which if not addressed, may curtail the potential role of institutions in the transformation process. These include continued donor dependence for funding and the low levels of co-governance currently existing in many agricultural organizations, particularly at lower levels of the organizational set up. It is pertinent therefore that these shortcoming be consistently addressed as part of the ASDP and MKUKUTA implementation process.

Annex

Table AA: Tax regimes and other measures to promote agriculture in the United Republic of Tanzania

Tax regimes to promote agriculture in the United Republic of Tanzania	
Tax regime / measure	Incentives / concessions
1. Tax regimes to promote agriculture	
Income Tax Act (2004)	<ul style="list-style-type: none"> • Full deduction of costs incurred in: (1) clearing of farming land, excavation of irrigation canals, cultivation of perennial crops and planting trees for farming land to prevent soil erosion; (2) environmental conservation for farming land, animal husbandry, fish farming or restoration of the land to normalcy after use; and (3) research and farming land development; • Irrigation tools and machinery are categorized class II of assets to qualify for a high depreciation rate of 25percent. • Tractors and other plants and machinery used for agricultural purposes are subject to high depreciation rates of 50percent in the first year and 25 percent for subsequent years. • Businesses producing agricultural produce are not subject to equal quarterly installment payment requirement for income tax purposes but are required to pay their taxes during the third quarter after harvest.
Customs Tariff Act (1976)	<ul style="list-style-type: none"> • Agricultural inputs and implements are subject to zero import duty rate.
Value Added Tax Act, (1977)	<ul style="list-style-type: none"> • Unprocessed agriculture and livestock, including unprocessed meat, unprocessed fish and all unprocessed agricultural produce is VAT exempt • Inputs to agriculture and fishing, such as pesticide and fertilizers, as well as agricultural implements are VAT exempt • VAT zero rating is granted to crop farmers under co-operatives and producer associations registered for VAT for agricultural produce intended for export. • Industries producing inputs for agriculture and fishing such as pesticides and fertilizers, are zero-rated to enable producers reclaim input VAT incurred in the course of production. • Small agricultural produces whose produce is exported may receive VAT rebate through their Cooperative Union or Associations
Stamp Duty Ordinance (CAP 332)	<ul style="list-style-type: none"> • Agriculture, livestock and fishery produce are exempt from Stamp Duty on receipt. In addition, Stamp Duty on markets for agricultural produce is remitted.
Local Government Finances Act (1982)	<ul style="list-style-type: none"> • Multiple charges on agricultural and livestock produce had been rationalized and reduced including the requirements to limit Produce Cess to 5 percent of farm gate price.
2. Other measures	
To promote large scale farming	<ul style="list-style-type: none"> • Introduce 100 percent first year capital allowance for plant and machinery used in agriculture. The measure is aimed at attracting investment in agricultural technology. • Reduce the stamp duty rate on conveyance of agricultural land to a nominal amount of Tshs 500, in order to reduce costs in conveying land ownership. • Exempt employment on agricultural farms from Skills Development Levy

To Promote Small Scale Agriculture & Livestock farming	<ul style="list-style-type: none"> Local Authorities were urged not to collect taxes and levies outside those enlisted in the Local Government Finances Act (1982). Produce Cess should not exceed 5percent of the respective produce's farm gate price. Voluntary contributions be charged by the village community only if they are specific and the related project implemented by the respective village or villages.
To promote Industries for Inputs for Agriculture and Fishing	<ul style="list-style-type: none"> Supplies by industries producing inputs for agriculture and fishing produced and consumed in local market, such as pesticides and fertilizers, are zero-rated.
To Promote Industries for Processing Agriculture and Fishing Produce	<ul style="list-style-type: none"> Abolish Excise Duty on wine and brandy from locally produced grapes. Exempt processed tea (black tea) and packaged tea from VAT
3. Combined Effect of the Tax measures for Agriculture	
Income Tax	<ul style="list-style-type: none"> 100 percent first year capital allowance for plant and machinery used in agriculture, including irrigation tools and equipment. 100 percent deduction for capital expenditure on land clearance, excavation of irrigation canals, cultivation of perennial crops and planting trees on agricultural land to prevent soil erosion.
Stamp Duty Ordinance	<ul style="list-style-type: none"> Reduce the stamp duty rate on conveyance of agricultural land to a nominal amount of T.shs 500. Stamp Duty on receipts has been abolished for all receipts including on sale of agriculture produce.
Vocational Education and Training Act (VETA)	<ul style="list-style-type: none"> Exempt employment in agricultural farms from Skills Development Levy.
Local Government Finances Act	<ul style="list-style-type: none"> Agricultural produce cess limited to 5percent of the farm gate price and within the district of production.

References

- Buffie, E. Adam, C., O'Connell, S. & Pattillo P.** 2004. Exchange Rate Policy and the Management of Official and Private Capital Flows in Africa, *IMF Staff Papers Vol. 51*, Special Issue.
- BOT** .2007. *The Annual Monetary Policy Statement of Bank of Tanzania; The mid-term review* (available at www.bot-tz.org/Publications/MonetaryPolicyStatements/2007_Jun_MPS.pdf)
- BOT**.2006. *Press Statement*, (available at <http://www.bot-tz.org/Adverts/PressRelease/PressStatement-6Sept2006.pdf>)
- Braathen, E., Amon,C. & Odd-Helge,F.** 2005. *Local governance, finances and service delivery in Tanzania; A summary of findings from six councils.*
- Collier, P. & Venables, J.**2007.Rethinking Trade Preferences: How Africa Can Diversify its Exports, *The World Economy*, 30 (8), 1326–1345.
- CUTS** .2002. *Competition Law & Policy – A Tool for Development in Tanzania.*
- Djurfeldt, D, Holmen, H., Jirstrom, M. & Larsson, R. (Eds.)**.2005. *The African Food Crisis: Lessons from the Asian Green Revolution*, CABI Publishing. Wallingford, U.K.
- Eele, G., Semboja, J., Likwelile, S. & Akroyed, S.** 2000.Meeting International Poverty Targets in Tanzania, *Development policy review*, Vol. 18, pp.63-83.
- Hawassi, F. G. H.**2006. *Analysis of Processing, Marketing and Demand for processed Fruits and Vegetables in Tanzania.*, Sokoine University of Agriculture, (PhD Dissertation)
- IMF**.2007. An IEO Evaluation of IMF Exchange Rate Policy Advice, 1999–2005, (available at http://www.ieo-imf.org/eval/complete/eval_05172007.html)
- IMF**. 2006. The IMF's Advice on Exchange Rate Policy; Issues Paper for an Evaluation by the Independent Evaluation Office (IEO).
- Issa Faisal,H.H.**2006. *Reforming Human Resource Development in Tanzania –Issues, Challenges and Lessons*, Public Service Management President's Office, Tanzania
- Masao,Y.** 2002. Land Tenure Reform under the Economic Liberalization Regime-Observations in Northern Tanzania, Paper Prepared for CODESRIA's 10TH General Assembly on "Africa in the New Millennium", Kampala, Uganda, 8-12 December (available at http://www.codesria.org/Archives/ga10/papers_ga10_12/6plenary_Yoshida.htm)
- OECD**.2006. Policy Framework for Investment, OECD Publications No. 83861. Paris (available at <http://www.oecd.org/dataoecd/1/31/36671400.pdf>).
- Quartey, P.** 2001. The Impact of Regulation & Competition on SME Development, Paper prepared for the DSA Conference on Different Poverty, Different Policies, Manchester.
- Stevens, C. & Kennan, J.**2006. Agricultural Reciprocity under Economic Partnership Agreements, *IIIS Discussion Paper No. 111* (available at SSRN: <http://ssrn.com/abstract=922275> 27.09.2007).
- Stone, L.**2003. *A Case for Using Mobile Internet and Telephony to Support Community Networks and Networked Learning in Tanzania.*
- Temu, A.E.** 2006. *OECD policy dialogue with non-members on aid for trade: from policy to practice; Aid for trade and agro-based private sector development in Tanzania.*
- Temu A.E. & Due., J.M.** 2000. The business environment in Tanzania after socialism: challenges of reforming banks, parastatals, taxation and the civil service, *The Journal of Modern African Studies*, 38,(4) pp. 683-712
- Traditional Irrigation Programme (TIP)** .2005. *Evaluation Report.*
- United republic of Tanzania (URT)** .2007. *Industrial Sector Performance in Tanzania.* Ministry of Industry, Trade and Marketing, Dar es Salaam.
- URT**.2006a. *Agricultural Sector Development Programme (ASDP): Support Through Basket Funding*, Government Programme Document, Dar es Salaam.

- URT.** 2006b. *Agricultural Sector Review; Performance, issues and Options*, Draft Main Report, Volume 1, Dar es Salaam.
- URT.** 2003a. *Agricultural sector development programme framework and process document*, Final draft, March, 2003, Dar es Salaam
- URT.**2003b. *The fair competition Act 2003*, Dar es Salaam.
- URT.**1999. The Foreign Exchange Act, 1992 Regulations, Government Notice No. 86.
- UNCTAD & JBIC.**2005. Blue Book on Best Practice in Investment Promotion Facilitation: Tanzania, United Nations Conference on Trade and Japan Development Bank for International Cooperation.
- UNCTAD.**2006. World Investment Report 2006; FDI from Developing and Transition Economies: Implications for Development United Nations, New York and Geneva
- UNCTAD.**2002. Investment Policy Review the United Republic of Tanzania.
- Wangwe, S.**2004. *Innovation in Rural Finance in Tanzania*, Paper presented at the Third Annual Conference on Microfinance held from 15th to 17th March 2004, AICC, Arusha
- Wasike, W.S.** 2001. Road Infrastructure Policies in Kenya: Historical Trends and Current Challenges, Working Paper No. 1., Infrastructure and Economic Services Division, Kenya Institute for Public Policy Research and Analysis (KIPPRA).
- World Bank.** 2006. *Snapshot Africa: Benchmarking FDI Competitiveness in sub-Saharan Africa*, World Bank Group/MIGA. Washington, DC
- World Bank.** 2005. *Tanzania Diagnostic Trade Integration Study 2*, Draft, Dar es Salaam.
- World Bank.**2004. Summaries of Ten Country Case Studies Undertaken As Part Of The IEO Evaluation Of The PRSP/PRGF and OED Review Of The Poverty Reduction Strategy (PRS) Process.
- WTO.** 2006. Trade policy review: Kenya, Tanzania

Annex I: List of participants

Dr. Oluwatosin Abe, General Manager/Head of Operations, Lifecare Ventures Limited, Lynson Chemical Avenue, Off Idiroko Road, Sanfo Ota, Ogun State, Nigeria.

Dr. Thomas B. Johnson Arthur, Consultant, Value Addition to Agro-Produce, Ministry of Trade and Industry, Private Sector Development and PSI, P. O. Box M47, Accra, Ghana. Tel: +233 0277769637

Professor Ernest Aryeetey: Director, Institute of Statistical, Social and Economic Research, Ghana: P. O. Box LG74, Legon. Tel: +233 21 501182/ +233 21 512506. Fax: +233 21 512504:

Dr. Gasper Ashimogo, Senior Lecturer, Department of Agricultural Economics and Agribusiness, Sokoine University of Agriculture, Tanzania. P. O. Box Chuo Kikuu, Morogoro. Tel: +255 744693424, +255 232603415. Fax: +255 232601390

Mr. Michael Ampeh Boateng, Food Safety and Total Quality Specialist, Business Strategies and Solutions, P. O. Box CE 12248, Tema, Ghana. Tel: +233 244366991, Tel/Fax: +233 22 305495

Mr. David Botchie, Research Officer, Department of Agricultural Economics and Agribusiness, University of Ghana, Legon, Ghana. Tel: +233 244736598

Mr. Carlos da Silva, Agribusiness Economist, FAO, Viale delle Terme di Caracalla, 00153, Rome, Italy. Tel: +39 0657055738:

Mr. Charly Facheux, Marketing and Value Chain Specialist, ICRAF (World Agro-forestry Centre, Cameroon, P. O. Box 16317, Yaoundé, Tel: +237 9997603 Fax: +237 22215089,

Mr. Josef Kienzle, Agro-Industries Officer, FAO, Viale delle Terme di Caracalla, 00153, Rome, Italy. Tel: +39 0657052612:

Mr. Emmanuel Joseph Mensah, Principal Research Assistant, Institute of Statistical, Social and Economic Research, Ghana, P. O. Box LG74, Legon. Tel: +233 21 501182/ +233 21 512506. /+233 244485721. Fax: +233 21 512504

Dr. Wellington Mulinge, Programme Officer, Kenya Agricultural Research Institute, P. O. Box 5781100200, Nairobi, Kenya. Tel: +254 733-967171

Mr. Austin Ngwira, Director of Agriculture, Clinton Foundation, Mphonongo Road, Area 43/2/82, Private Bag 68, Lilongwe. Malawi. Tel: +265 8-933734/ 1-925144. Fax: 265 1-925188.

Ms. Emma Nikki Owiredo, Consultant in Business Management, Doyen Consult, P. O. Box 8266, Accra North, Ghana. Tel: +233 21 508914, +233 244461709

Mr. Kenneth Quartey, President, Ghana National Poultry Farmers Association, Ghana. Tel: +233 244331630

Ms. Alexandra Röttger, Agricultural Economist, FAO, Viale delle Terme di Caracalla, 00153, Rome, Italy. Tel: +39 0657055458

Mr. Namal Samarakoon, Industrial Development Officer, United Nations Industrial Development Organisation. P. O. Box 300, A-1400, Vienna, Austria. Tel: +43 01-260263374. Fax: +43 213463374

Mr. Richard Shetto, Assistant Director-Mechanisation, Ministry of Agriculture, Food Security and Cooperatives, Tanzania. P. O. Box 9192, Dar-es-Salaam: Tel: +255 22 2862003, +255 754373395. Fax: +255 22-2862003

Hon. Richard Tolbert, Chairman, National Investment Commission, 12th Street Sonker, Monrovia. Liberia. Tel: +231 6-550560.

Mrs. Elizabeth Lily Turkson: Principal Investment Promotion Officer, Ghana Investment Promotion Centre, Ghana, P. O. Box M193, Accra, Tel: +233 21 665125-9/ +233 244251723,

Mr. Robert Van Otterdijk, Agro-Industries and Infrastructure Officer, FAO, Viale delle Terme di Caracalla, 00153, Rome, Italy. Tel: +39 0657056374

Annex II: Workshop Programme

Monday, 8th October 2007

8:00-9:00 **REGISTRATION**
9:00-9:30 **CONFERENCE WELCOME AND CONFERENCE OVERVIEW**

Presenters:

Mr Edouard K. Tapsoba, OiC, FAO Regional Office for Africa;
His Excellency Ernest Debrah, Minister of Food and Agriculture;
His Excellency Joe Baidoo-Ansah, Minister of Trade and Industry, Private Sector Development and PSI.
Mr Ahomka Lindsay, CEO, Ghana Investment Promotion Council
Mr Carlos da Silva, Agribusiness Economist, Agricultural Management, Marketing and Finance Service, AGSF,AGS, FAO

9:30- 10:00 **PRESENTATION OF RESULTS FROM LATIN AMERICA AND EASTERN EUROPE WORKSHOPS**
Carlos A. da Silva, AGSF,AGS, FAO

10:00-10:30 **PRESENTATIONS OF COUNTRY APPRAISALS**
Ghana: Professor E. Aryeetey, and Mr E. Mensah, University of Ghana

10:30-11:00 Coffee Break

11:00-13:00 **PRESENTATIONS OF COUNTRY APPRAISALS**
Mozambique: Mr Danilo C. Abdula, Ministry of Agriculture*
The Gambia: Mr. Mamour A. Jagne, UNDP*
Tanzania: Dr Gasper C. Ashimogo, Sokoine University of Agriculture
Kenya Dr Wellington M. Mulinge, Kenya Agricultural Research Institute

Monday, 8th October 2007 - continued

13:00-14:00 Lunch break

14:00 -15:30 **PLENARY DISCUSSIONS ON COUNTRY OVERVIEW PAPERS**
Facilitator: Carlos A. da Silva,
AGSF,AGS, FAO

15:30-16:00 Coffee Break

16:00-17:30 **ROUND TABLE DISCUSSIONS**
Theme one: Legal and regulatory framework:
Contract law, licensing, customs, FDI, tax, property rights, land tenure

Theme two: Institutions and services

* Could not attend the event

Finance, professional associations, extension services, business advisory services etc

Theme three: Public-private cooperation

Food safety and quality, infrastructure, risk management, investment, trade promotion, business linkages.

Theme four: Agro-industry specific promoters of development

Raw material supply management, land tenure, contract farming, overcoming seasonality, cold chains and logistics.

Tuesday, 9th of October, 2007

9:00-10:30

Round table discussions continued-

Facilitators

Theme one: Legal and regulatory framework:

Theme two: Institutions and services

Theme three: Public-private cooperation

Theme four: Agro-industry specific promoters of development

10:30-11:00:

Coffee Break

11:00-12:30

Presentations of outcomes of round table discussions

Facilitator: Carlos A. da Silva, AGSF, AGS, FAO

12:30-13:00

PRESENTATION AND DISCUSSION ON SPECIAL ISSUES IN AFRICAN AGRO-INDUSTRY

1. *Supply chain management in brewing industry, potentials for Africa.* Mr Robert van Otterdijk, AGST, AGS, FAO, Mr Oluwatosin Abe - Lifecare Ventures Malting Industry, Nigeria
2. *Agricultural Mechanisation Strategy in Tanzania,* Mr Richard Shetto - Ministry of Agriculture, Food Security and Cooperatives
3. *Agro-industrialisation in Viet Nam and Chile.* Ms Alexandra Röttger – FAO, AGSF, AGS, FAO

13:00-14:00

Lunch Break

14:00-15:30

PRESENTATION AND DISCUSSIONS ON SPECIAL ISSUES IN AFRICAN AGRIBUSINESS

4. *Food safety: Total Quality Management.* Mr Michael Boateng, Ghana
5. *Do African agro-industries need protection?* Mr Kenneth Quartey - Ghana Poultry Association
6. *Value-chain analysis and innovative business solutions.* Mr Austin Ngwira - Clinton Foundation, Malawi
7. *Potential for tree crop development in Africa - which enabling environment?* Charles Facheaux - ICRAF, Kenya

15:30-16:00

Coffee Break

16-17:30

**PRESENTATIONS AND DISCUSSIONS ON SPECIAL ISSUES
IN AFRICAN AGRIBUSINESS**

8. *Initiating policy change.* Mr Geoffrey Ebong - WFP, Uganda

9. *Investment Climate.* Mr Richard Tolbert - National Investment
Commission, Liberia

Wednesday, 10th of October, 2007

9:00-10:30

**WORKING GROUPS-DEVELOPING PRIORITY AREAS FOR
POLICY ACTION**

Facilitators

Group One

Group Two

10:30-11:00:

Coffee Break

11:00-13:00

**PRESENTATIONS AND DISCUSSIONS ON OUTCOMES OF
WORKING GROUPS**

Group One

Group Two

13:00-14:00

Lunch Break

14:00-15:30

**PLENARY DISCUSSION ON PRIORITY AREAS FOR POLICY
ACTION**

Facilitators: Carlos A. da Silva, Alexandra Rottger, AGSF, AGS, FAO

15:00-16:00

WRAP UP AND CLOSURE OF WORKSHOP

Facilitator: Josef Kienzle, AGST, AGS, FAO