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REDUCING POVERTY IN EAST AFRICA THROUGH TRADE

The Regional Agricultural Trade Expansion Support Program Final Report

SEPTEMBER 2008
This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.

RATES / STEPHEN WALLS

Traditional dancers entertain participants at the August 2007 Taste of Harvest competition in Rwanda. The annual Taste of Harvest events are organized by the Eastern African Fine Coffees Association as venues to promote East African specialty coffees and raise awareness among growers and processors about coffee quality characteristics.

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The Regional Agricultural Trade Expansion Support Program Final Report

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RATES / STEPHEN WALLS

Coffee cupping — the process of evaluating and describing the taste of brewed coffee — is a professional skill taught by EAFCA to its members as part of raising awareness of buyer preferences for specialty coffee.

CONTENTS

FRONT COVER: Smallholder coffee farmers in Tanzania show off the results of their Eastern African Fine Coffees Association-sponsored training in best agronomic practices — high-yielding Arabica coffee trees.

RATES / STEPHEN WALLS

BACK COVER: Smallholder farmers are the main coffee producers in East Africa. RATES has been instrumental in connecting these farmers to profitable global markets for premium blends through its work with the Eastern African Fine Coffees Association.

RATES / STEPHEN WALLS

RATES / STEPHEN WALLS

Since AGOA took effect in 2000, East African textile exports to the United States have grown dramatically. The provision allowing for third-country (chiefly Asian) fabric to be used duty-free in African exports is an important factor in AGOA's continued relevance for Africa. However, Africa cannot compete with Asian giants China and India in "a race to the bottom" of a low-priced industry. Africa needs to develop its apparel brand identity to profit from the clothing market.

ACRONYMS

ACTIF	African Cotton & Textile Industries Federation
AGOA	African Growth and Opportunity Act
APEP	Agricultural Productivity Enhancement Program
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EAFCA	Eastern African Fine Coffees Association
EAGC	Eastern Africa Grain Council
ESADA	Eastern and Southern African Dairy Association
GTPA	Grain Traders and Processors Association
JGI	Jane Goodall Institute
NCPB	National Cereals and Produce Board
RATES	Regional Agricultural Trade Expansion Support
RATIN	Regional Agricultural Trade Intelligence Network
SADC	Southern Africa Development Community
SPS	Sanitary and phytosanitary
TACARE	Lake Tanganyika Catchment Reforestation and Education
UHT	ultra-high temperature
ZDPA	Zambia Dairy Processor's Association

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The cotton, textiles, and apparel industry in East Africa has the potential to compete with imports. RATES' focus was on integrating the value chain regionally for the collective benefit of growers, processors, and manufacturers.

EXECUTIVE SUMMARY

Since its start-up in FY 2002, the Regional Agricultural Trade Expansion Support (RATES) program has been USAID/East Africa's flagship trade program, designed to increase the value of agricultural trade within the East and Southern Africa region and between the region and the rest of the world. RATES has been an integral part of USAID/East Africa's support under the Initiative to End Hunger in Africa and the AID for Trade strategy that focuses on reducing poverty and building the capacity of African institutions to effectively compete in a global marketplace. RATES worked in four value chains: specialty coffee, cotton/textiles, maize, and dairy.

RATES employed a full value chain (from farmgate to consumer) approach, rather than focusing on a more common and narrowly focused firm-level assistance strategy. RATES used its resources to support private sector regional trade associations for each of the four commodities: the Eastern African Fine Coffees Association (EAFCA), the African Cotton & Textile Industries Federation (ACTIF), the Eastern and Southern African Diary Association (ESADA), and the Eastern Africa Grain Council (EAGC).

The RATES approach was based on the premise that the private sector should set the agenda for removing barriers to trade and set the pace of joining together regionally to cooperate to overcome these constraints. Ultimately, regional cooperation and integration will lead to increased competitiveness for individual firms and value chains.

COFFEE

- RATES' strategy for increasing specialty coffee exports was to work through the Eastern African Fine Coffees Association, a regionally-focused specialty coffee organization with chapters in 10 coffee-producing countries: Burundi, Democratic Republic of Congo, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia, and Zimbabwe.

- As a result of RATES' work and in collaboration with a number of USAID-supported bilateral programs and local partners at the grassroots level, the region recorded more than $271 million in specialty coffee exports during 2007, compared with only $60 million in 2001. In the last five years, specialty coffee sales increased at an average annual rate of more than 25 percent, an encouraging trend.

- The RATES program helped EAFCA grow from a fledgling organization to an industry leader. EAFCA now provides marketing and educational services to its members, with training in post-harvest processing, roasting and blending, cupping, and marketing, as well as national and regional cupping competitions, and barista championships.

UNLEASHING THE POWER OF THE PRIVATE SECTOR

- Since RATES' start-up in October 2002, RATES-supported industries have exported more than $3.5 billion in specialty coffee, maize and grains, cotton and textiles, and dairy products.
- RATES provided direct support to more than 2,000 agricultural exporting and manufacturing firms in the region in the last six years (FY 2002-FY 2008) that are now networked in national and regional trade organizations.
- RATES encouraged strong public-private partnerships between the regional associations and their public sector counterparts EAFCA, ACTIF, ESADA, and the EAGC. Each signed memoranda of understanding with the Common Market for Eastern and Southern Africa (COMESA) and the East African Community (EAC), and provided the voice of the private sector to regional policy formulation.
- RATES helped catalyze more than 50 public-private partnerships, with each of the trade associations forming strong partnerships with COMESA and the EAC.
- Private companies have contributed more than $20 million in direct Global Development Alliance contributions to the regional associations and in support of the value chains. International companies such as Starbucks and Dunavant have teamed with the private sector to enhance support to smallholder producers and increase their purchases of African products.
- RATES helped private sector trade organizations train more than 9,000 men and women during the project. RATES produced a number of trader guidebooks and supported COMESA to create a policy information Web page for the private sector (www.tradecomesa.com).
- RATES facilitated a number of key trade policy reforms, including the successful conclusion of regional maize and dairy product quality standards, the introduction of a simplified trade regime, and uniform dairy sanitary and phytosanitary (SPS) protocols.

RATES / STEPHEN WALLS

Under RATES, EAFCA's leadership narrowed its focus and defined its goal in relation to world coffee markets to become the internationally recognized source of the highest quality specialty coffee.

- EAFCA also developed its flagship marketing activity, the African Fine Coffee Conference and Exhibition, as a way of earning revenue to cover annual administrative and operational costs of the organization and becoming financially sustainable. In 2007, more than 500 international and regional coffee industry players attended the event in Kampala.

COTTON/TEXTILES

- RATES worked to improve the region's competitiveness to allow the cotton/textiles sector to take advantage of national, regional, and export markets. In 2007, cotton and textile exports were valued at $430 million, compared with a 2001 baseline of $245 million.

- RATES assisted the regional cotton/textile industry in forming the African Cotton & Textile Industries Federation, a regional cotton/textile trade association composed of players of all sectors in the cotton/textiles value chain.

- ACTIF has achieved an impressive record of international and regional recognition in a short period. RATES worked with ACTIF leaders on a dedicated effort to form a prag-

RATES / STEPHEN WALLS

Maziwa — Swahili for "milk" — is a difficult product to trade regionally, given different national approaches to sanitary regimes. RATES helped rationalize and synthesize standards for the dairy trade and gave ESADA crucial support in its role of increasing trust and confidence among industry actors. Here, ESADA members visit Brookside Dairy Ltd. in Kenya, one of the region's most modern dairy processing facilities.

RATES

AGOA — the African Growth and Opportunity Act — provides for quota- and duty-free entry into the United States of certain goods from eligible countries, notably textiles and apparel. African textile exports must compete with those from the "Asian tigers" such as China, making regional integration for niche markets and domestic consumption critically important.

matic institutional structure that will become sustainable in time.

- www.cottonafrica.com continues as a leading success story of a Web-based trading site. The site has more than 250 registered users and is the top keyword search result on Yahoo and Google for "cotton" and "Africa". From the site's beginning in 2003 through 2008, traders posted an impressive $900 million in cotton products to buy or sell on the site.

MAIZE

- RATES promoted a Maize without Borders concept that has freed-up cross-border trade and helped create a more structured trading system within the region. Heads of state throughout the region have embraced the Maize without Borders strategy as a major way of improving food security through increased trade.

- The newly formed Eastern Africa Grain Council is leading the charge in public-private cooperation to develop a strategy for better coordination between the private sector and government policymakers. Regional exports of maize in 2007 exceeded $209 million, compared with a 2001 baseline of only $5 million.

- With RATES' support, the EAGC is promoting innovative programs such as warehouse receipt schemes and other collateral management systems to allow commercial trade to react to food security needs within the region by providing known quantities of grain in secured warehouses.

- The EAGC is making a major contribution to helping Kenya recover from negative effects on grain production as a result of post-election violence in 2007. The EAGC-supported warehouse receipt system has secured more than 1,000 mt for the FY 2008 season.

- The RATES-supported Regional Agricultural Trade Intelligence Network (RATIN) continues to serve as a leading source of agricultural market information locally, regionally, and internationally.

DAIRY

- The RATES dairy program focused on developing extra/inter-regional export markets, initially targeting countries in the region with products that have regional demand. To pursue this program, RATES worked actively with its key partner, the Eastern and Southern African Dairy Association, which was formed in 2005 to expand markets for its members.

- RATES worked with ESADA to provide core technical support on programs and member service delivery. Core support was also available to kick-start association programs that address extra/inter-regional trade issues. ESADA services include market information, trade linkage systems, policy advocacy, regional and international representation, and specific training opportunities that address key trade constraints.

- RATES made significant progress in improving regional market linkage and market information systems, enhancing product competitiveness and strengthening national and regional networks. As a result, regional and international exports of dairy products in 2007 exceeded $13.2 million, compared with a 2001 baseline of $2.6 million.

KEY LESSONS LEARNED

The RATES program had remarkable success in strengthening private sector participation in removing barriers to regional trade and expanding its volume and value. RATES success can be attributed to a well-designed program to guide the process, a skilled team to implement the scope of work, and an engaged private sector eager to take on challenges facing the region. At no time did RATES take center stage; it supported trade flow leaders in achieving their own vision for increasing trade and market access. RATES narrowed its focus to key target countries. It worked with USAID bilateral programs and other donors to leverage resources. RATES encouraged international players to invest in value chains and form lasting relationships. RATES focused on building sustainable partnerships between private sector trade associations and public sector institutions that formulate trade policies. RATES also strengthened the capacities of the associations to generate revenue, with an aim of financial sustainability after the end of RATES.

RATES / STEPHEN WALLS

RATES / STEPHEN WALLS

RATES /BARRY FISHER

TOP: According to the Specialty Coffee Association of America, Americans spent $12 billion on coffee drinks in 2006 — more than was spent on movie tickets. Says one coffee roaster in Chicago: "Coffee beans have every bit the nuance that fine wine does, so we are working hard to put that to the public's knowledge."

CENTER: Drinkable yogurt (shown here packaged at Eldoville Farms) is a good way to get dairy to the consumer in small, affordable quantities.

BOTTOM: In March 2007, ACTIF sent a delegation of Tanzanian cotton regulatory officials, researchers, ginners, farmers, and a bio-safety scientist to South Africa to study that country's approach to growing genetically modified cotton. Tanzania already has GMO rules in place under its Environmental Act and is working on a GMO and a bio-safety policy framework.

EAFCA

Differentiated — also called specialty or premium — coffee has become one of the fastest-growing food service markets in the world, netting an estimated $13.5 billion in the United States alone in 2007 (according to the Specialty Coffee Association of America). Demand for differentiated coffees has been growing since the early 1970s, when U.S. experts began to identify micro-climates that produced superior beans around the world. RATES helped EAFCA directly link growers of differentiated coffees with major international roasters and retailers, resulting in an expanding share of global trade in specialty markets.

CHAPTER ONE

GETTING RESULTS

REGIONAL TRADE ASSOCIATIONS CREATE "CONNECTIVE TISSUE" TO PRODUCTIVE PUBLIC-PRIVATE DIALOGUE

The four regional trade associations — the Eastern African Fine Coffees Association, the African Cotton & Textile Industries Federation, the Eastern and Southern African Diary Association, and the Eastern Africa Grain Council — were the "connective tissue" that brought a regional perspective to national governments and multilateral institutions.

REDUCING POVERTY AND BUILDING THE REGION'S CAPACITY TO TRADE

The Regional Agricultural Trade Expansion Support Program (October 2002 to March 2009) was designed to galvanize private sector participation in value chains with the potential to significantly increase the volume and value of East African trade regionally and internationally.

The RATES program focused on expansion of agricultural trade regionally and internationally and was an integral part of the Initiative to End Hunger in Africa. The initiative coordinates the U.S. government's contribution to one of the Millennium Development Goals — to cut hunger in Africa by half by 2015.

RATES was also an important contributor to the U.S. government's commitment to the AID for Trade initiative aimed at helping developing countries, particularly the least developed, meet the goal of reducing poverty and building their capacity for trade.

RATES' INNOVATIVE APPROACH

RATES employed a number of innovative and successful strategies. Some key components of the RATES approach included:

- *Leading from behind (key to long-term sustainability).* From the beginning, RATES let its private sector partners set the agenda for change and growth. Stakeholders chose their own leadership for regional industry associations, which although supported financially by RATES, pursued priority objectives set by the members.

- *Cooperate to compete.* Private sector players in all four commodity sectors invariably were told of, and impressed by, the need to speak with one voice to government policymakers. Interest in forming a regional industry association would build on the need for business people to take a coherent position with respect to policies and regulations, when dealing with institutions and each other.

- *Creating effective public-private dialogue.* RATES encouraged strong public-private partnerships between regional associations and their public sector counterparts. EAFCA, ACTIF, ESADA, and the EAGC represent the "connective tissue" that brings a regional perspective to the national public and private sectors, which bilateral programs cannot provide.

- *Building on bilateral mission investments.* RATES established strong collaborative partnerships with USAID bilateral missions within the COMESA region. RATES supported numerous bilateral projects (Kenya Maize Development Project, Partnership to Enhance Agriculture in Rwanda, Agricultural Development Assistance in Rwanda,

ADDING VALUE TO BILATERAL EFFORTS

- RATES worked with USAID/Rwanda's projects, including Agricultural Development Assistance in Rwanda, Partnership to Enhance Agriculture in Rwanda, and Sustaining Partnerships to Enhance Rural Enterprise and Agribusiness, which all deal in coffee production and promotion. This has included working together to conduct training courses on coffee production, roasting, cupping, and brewing.

- RATES had a close and congenial working relationship with USAID/Burundi. This included conducting training courses on coffee production, roasting, and cupping, and convening a coffee roundtable aimed at resolving a major dispute between private traders and the Burundi government.

- RATES assisted the USAID/Tanzania Mission in sending a group of trainees from the Tanzanian cotton industry to South Africa to learn about new cotton production technologies, including growing Bt cotton.

- RATES has had a long relationship with the USAID/Malawi Mission and was instrumental in getting the public and private sector maize players together for the first time. RATES has provided a partners fund grant to the Malawi Grain Traders and Processors Association (GTPA) to help strengthen this organization. This season (FY 2008), this association has traded more than 300,000 mt of maize valued at $60 million.

- RATES worked with a number of USAID/Kenya programs in coffee, dairy, and maize. The EAGC, in conjunction with USAID/Kenya's Maize Development Program, is helping the country's maize industry recover from the effects of post-election violence through an innovative warehouse receipt scheme.


RATES

Food security in East Africa is inextricably linked to the availability of maize. RATES' Maize without Borders program standardized the regional approach to grain grades and standards, facilitating the flow of maize from surplus to deficit areas (see map on page 34).

and Agricultural Productivity Enhancement Program [APEP]); this cooperation was one of the main reasons for the project's success in increasing trade.

EXPANDING TRADE

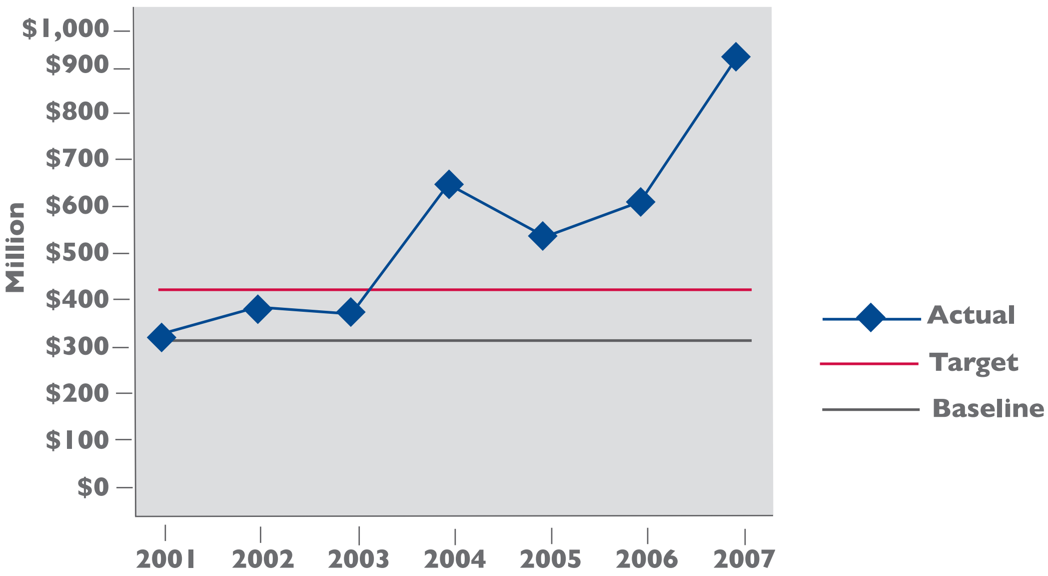
RATES has demonstrated that integration stimulates economic growth; end-of-project trade data in Exhibit 1 (See page 12) show considerable gains from the baseline year.

MAJOR ACHIEVEMENTS

- Since the program began in October 2002, RATES-supported industries (in selected countries) have exported more than $3.5 billion in specialty coffee, maize and grains, cotton and textiles, and dairy products.
- RATES focused on involving international and regional companies to support value chains and regional associations. These companies have made more than $20 million in direct contributions to the four value chains.
- RATES supported the private and public sectors to work together to remove barriers to trade, including adopting harmonized standards in dairy and maize and resolving trade disputes.

EXHIBIT 1

SPECIALTY COFFEE, COTTON AND TEXTILES, DAIRY PRODUCTS, AND MAIZE EXPORTS FOR RATES' TARGETED COUNTRIES



EAFCA
EASTERN AFRICAN FINE COFFEES ASSOCIATION

Eastern and Southern African Dairy Association
ESADA
HEALTH · SAFETY · QUALITY

EAGC
EASTERN AFRICA GRAIN COUNCIL

ACTIF

- Each association (EAFCA, ACTIF, ESADA, and EAGC) has made a substantial contribution to its industry, which can be measured in volume and value of sales, level of stakeholder participation, trust of public sector partners — including donors — and confidence along their respective value chains.
- Each association signed memoranda of understanding with COMESA and the EAC, attesting to its status as the private sector voice in trade negotiations and debate. Other accomplishments of RATES' association partners are summarized in the chapters that follow.

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RATES / BARRY FISHER

RATES / STEPHEN WALLS

TOP: EAFCA organized frequent barista competitions throughout the region to promote domestic demand for specialty coffee.

CENTER: ACTIF has helped its members understand the importance of participating in events like the twice-yearly MAGIC Marketplace in Las Vegas. MAGIC is organized to be "an incubator of fashion," seeking to connect producers and buyers of the latest trends.

BOTTOM: The work force at Phenix Logistics in Kampala, Uganda, is unionized and the company adheres to ISO 9000 certification standards of conduct.

RATES / STEPHEN WALLS

Ethiopia proudly claims to be the birthplace of coffee, and the beverage has an important place in Ethiopian culture, as shown in this coffee-pouring ceremony.

CHAPTER TWO

SPECIALTY COFFEE

Coffee — estimated by USAID to be a $10 billion per year industry, employing 25 million people worldwide — has been a principal export crop in much of Africa since colonial times. As elsewhere in the world, coffee is produced in Africa predominantly by smallholder farmers in remote rural areas. USAID is committed to creating sustainable smallholder coffee systems in Africa, where its importance as a cash crop can't be overstated.

BARRIERS TO TRADE

When RATES began in 2002, East African coffee had been in a long period of decline. Farmers had been contributing to an oversupply on the world market of commodity-grade Robusta coffee, meaning poor returns on yields. In 2001, coffee prices fell to a 100-year low in real terms; the drop was particularly severe for countries like Uganda, where Robusta coffee provides more than half of export revenues.

At the same time, the market for differentiated coffee was showing strong growth, with prices substantially higher than for average-grade coffee. Differentiated coffees include gourmet and specialty labels, geographic indications of origin (appellations), organic, fair trade, and eco-friendly or shade-grown varieties. These previously niche markets were becoming mainstream and earning significantly higher returns for those coffee producers who could meet the high quality standards associated with them.

RATES saw that for East Africa to move beyond the highly competitive and volatile commodity-based coffee trade, the region needed to export differentiated, value-based products. Not only does differentiation offer East African coffee producers a competitive platform, it presents a rare opportunity for rural smallholders to participate in global markets while safeguarding their natural resources.

The Eastern African Fine Coffees Association was formed in 2000 — the only industry association of the four RATES partners that existed before the program. As it was already the established trade flow leader in the regional coffee sector engaged in a variety of member services (some of them donor-directed), the challenge was to help the association refocus on its core mission: to expand specialty coffee exports. EAFCA leadership surveyed and consulted with its members to determine the top two barriers to expanding trade — a wide understanding of what constitutes quality for the international market and the ability to deliver it, and the absence of an effective marketing and promotion

AFRICA AS A LEADING ORIGIN OF SPECIALTY COFFEE

- Green Mountain Coffee Roasters has been a major supporter of African coffee and has released a Gombe Reserve coffee brand that is donating 10 percent of its proceeds to the Jane Goodall Institute (JGI). RATES introduced Lindsay Bolger, Green Mountain's principal coffee buyer, to Jane Goodall at the EAFCA Arusha conference.
- Starbucks Coffee Company is now buying from almost every EAFCA country, including Ethiopia, Kenya, Uganda, Rwanda, Tanzania, and Zambia. In 2006, Starbucks bought 5 percent of its coffee from Africa, for a value of $22 million. This figure is expected to rise to $50 million in the next two years. Starbucks invested $2 million to improve processing facilities in Ethiopian and Kenyan coffee communities.
- Peet's Coffee & Tea Inc., a specialty coffee roaster and marketer, introduced an African Blend Coffee. The first blend featured coffee that Peet's purchased directly from a group of 645 Tanzanian small-scale growers, representing the first time that coffee growers in Tanzania were able to bypass the national coffee auction and sell directly to roasters.
- Intelligentsia Coffee is promoting direct trade coffee as an alternative to fair trade coffees. Under the direct trade scheme, coffees of exceptional quality are selected by medium-scale buyers in the producers' fields, earning a premium of at least 25 percent above fair trade prices.
- The Association of Kilimanjaro Specialty Coffee Growers has seen significant sales of specialty and fair trade coffees to six premiere buyers: Peet's Coffee & Tea, Starbucks Coffee Company, and Dallis Coffee (all based in the United States), List & Beisler, and another buyer (both based in Germany), and Volcafé Ltd., in Japan.
- International coffee companies have made more than $20 million in direct contributions to EAFCA countries through bilateral support, attending regional trade shows, and sponsoring regional events.
- More than 50 U.S.-based coffee industry players have served as Coffee Corps volunteers through the Coffee Quality Institute, a part of the Specialty Coffee Association of America.
- EAFCA has raised more than $1.5 million in net revenues from its African Fine Coffee Conferences and Exhibitions, allowing the association to cover 100 percent of its operational costs for FY 2007 and 2008.

RATES / STEPHEN WALLS

The roasting process is a key factor in specialty coffee quality and is a carefully calibrated operation performed at the higher end of the specialty coffee value chain. For producers at the lower end to continue enjoying high demand and prices, roasters must perform their value-adding role well.

strategy. These two — training in quality and marketing — became the top priorities for EAFCA in adding value to the fine coffee value chain.

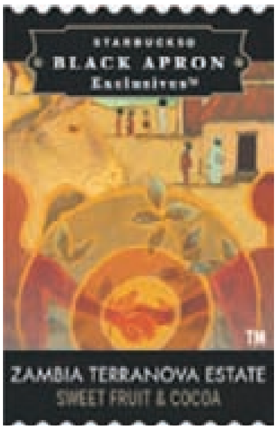
EAFCA MARKETING AND PROMOTION

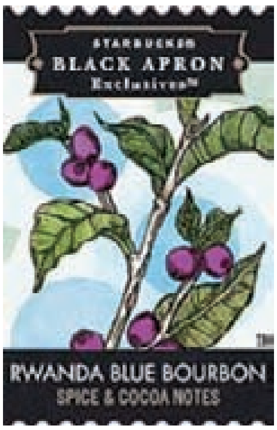
RATES first helped EAFCA establish a theme and logo for its fine coffees: the "World's Wildest Coffee" (changed in 2008 to the "World's Finest Coffee") was represented by Bwana Kahawa (Mr. Coffee), a coffee-sipping lion. With its regional brand and identity, EAFCA was ready to begin participating in the many meetings and exhibitions at which coffee growers and exporters introduce their products to roasters and retailers. The most important of these is the one EAFCA initiated itself: the annual African Fine Coffee Conference and Exhibition. This annual conference — there have been five to date — has become the main forum for connecting growers and exporters with roasters and retailers.

The conferences are also the principal revenue-generating activity for EAFCA itself, which provides good motivation to get the most — and most high-level — participation. In this, EAFCA has been successful. For example, the third conference, in Arusha, Tanzania, was attended by Mary Williams, co-founder of Starbucks; Jerry Baldwin, founder of Peet's; Nester Osorio, executive director of the International Coffee Organization; Rick Peyser, president of Green Mountain Coffee; Ted Lingle, executive director of the Specialty Coffee Association of America; and Mick Wheeler, executive director of the Specialty Coffee Association of Europe. Of the 470 participants, 200 were serious buyers for the export market.

A Kenyan barista pours her signature drink during one of several EAFCA-sponsored national competitions to raise the profile of African specialty coffee domestically.

RATES / STEPHEN WALLS





EAFCA members have also participated widely in coffee conferences outside the region, such as Specialty Coffee Association of America and Specialty Coffee Association of Europe conferences and exhibitions, International Coffee Week (*Sintercafe*) in Central America, and the International Federation of Organic Agriculture Movements, where the importance of the market trend toward organic coffee was presented. In 2007, specialty coffee exports for the region totaled nearly $174 million (compared with $60 million in 2001). Highlights of relationships that year that contributed to the healthy increase in sales include:

- Peet's Coffee & Tea formed a relationship with Tanzanian Kilicafe Cooperative farmers (with bilateral project help from TechnoServe).
- Green Mountain Coffee established an alliance with Rwandan coffee cooperatives (with bilateral project help from USAID's Partnership to Enhance Agriculture in Rwanda).
- Starbucks awarded Rwanda's Blue Bourbon specialty coffee its coveted Black Apron in 2006 (there have been seven Black Apron awards to the region).
- Starbucks invested $2 million to improve processing facilities in Ethiopian and Kenyan coffee communities.

EAFCA members are also increasingly active on the African continent. With a grant from the U.K. Department for International Development, EAFCA went on a trade mission to South Africa to present its brands to traders there. The response was enthusiastic; South Africa sent delegates on "coffee safaris" in the region arranged by EAFCA. South Africa is now the only non-producing-country chapter of EAFCA.

EAFCA QUALITY ENHANCEMENT

In keeping with RATES' philosophy of proceeding simultaneously on all fronts, EAFCA used marketing and promotion events, as well as other venues, to promote quality awareness and training for its members. A key partner for EAFCA has been the Coffee Quality Institute, whose Coffee Corps is a public-private partnership that makes industry experts available to farmers and associations needing technical assistance in production methods, processing, or marketing, for only the cost of travel. RATES supported EAFCA in bringing Coffee Corps trainers in connection with each African Fine Coffee Conference. Indeed, some of those volunteers — such as Peet's Senior Vice President Jim Reynolds in Tanzania and Green Mountain's Lindsay Bolger in Rwanda — went on to enter their companies into the alliances described above.

Competition was another tactic used to raise the quality of East African coffee. EAFCA began to organize regular Taste of Harvest cupping competitions around

RATES / STEPHEN WALLS

Jane Goodall addresses the third annual EAFCA conference in Arusha, Tanzania on the importance of sustainable coffee growing to endangered chimp habitats. RATES partnered with the Jane Goodall Institute to train coffee farmers on ways to inter-crop coffee with shade trees that chimps can use in their transit corridors.

Reliably good post-harvest handling is critical to East Africa's reputation for quality in delivering specialty coffee. Here, producers in Mbale, Uganda are trained to clean green coffee as part of EAFCA's grassroots efforts to reach growers with best practices.

the region — sometimes several per month — with Coffee Corps volunteers acting as trainers and judges. Producers who participate in the Taste of Harvest acquire a deeper appreciation for what the market demands, as well as special recognition at the annual African Fine Coffee Conference. Over and above that, in 2007, Starbucks brought the winners of every Taste of Harvest cupping competition to visit its facility in Switzerland to learn more about the coffee trade.

Increasing domestic demand has also become a priority of EAFCA members. One way of attracting media attention to fine coffee has been the national barista championships sponsored by EAFCA in member countries. The first was held in Nairobi in 2005, with the participation of the Kenyan coffee roasting industry. The winner of that contest went on to compete in a world championship in Seattle — he placed an impressive 13th.

BUILDING A COMPETITIVE AFRICAN COFFEE INDUSTRY

The region has come a long way in establishing itself as a credible source of fine quality Arabica coffee, as the strong upward trend in export value shows (See Exhibit 2 on page 23.) RATES has helped EAFCA play a critical role in raising the awareness of the region's coffees on world markets. The market for specialty coffees is expected to continue to grow at 5 to 10 percent per year for the foreseeable future, and Africa is well positioned to capture a greater share of this market. EAFCA has broadened its vision and is striving to become the leading origin of fine coffee in the world. To fulfill this dream, the region must take further steps to increase the quality and quantity of fine coffee to meet growing demand.

EAFCA's strategic plan for the coming years identifies a number of key areas to increase the production and export of fine coffees. This includes working with national-level institutions to promote the production of quality coffee, a major limiting factor in increasing exports. EAFCA has teamed with the Common Code for the Coffee Community Association to develop "Know Your Cup" farmer training curricula, and will be rolling this program out at the national level. EAFCA has also formed strategic alliances with a number of other certification programs and is expected to receive a grant from the Common Fund for Commodities to develop a cadre of well-trained coffee certifiers to further those alliances.

The specialty coffee value chain, especially at the retail level, plays

RATES / STEPHEN WALLS

EAFCA realized that to re-orient the East African coffee industry toward specialty coffee, all actors in the value chain had to be trained to meet market demands. EAFCA brought volunteer trainers from the Coffee Quality Institute's Coffee Corps to introduce and instill new standards. Here, a coffee cupping training in Rwanda focuses on the six primary qualities of high quality coffee: fragrance, aroma, taste, nose, aftertaste, and body.

FIRST PERSON
RATES Stepped Back to Let EAFCA Step Forward


RATES

Smallholder coffee producers in the Democratic Republic of Congo are shown how to hand-pulp coffee with handheld machines supplied through RATES. EAFCA's focus on the best growing and post-harvest handling practices is helping to raise smallholder incomes at the base of the value chain.

"It was around the year 2000 that some East Africans in the coffee business began to see that something was wrong with the big picture. West Africa dominated exports, yet East Africa (Ethiopia) is the birthplace of coffee, grows 65 percent of the continent's total coffee harvest, and supplies 98 percent of Africa's specialty coffees. With seed money from USAID, East African coffee processors and exporters started to organize — but at the time, coffee prices were so low it was tough to attract interest. That's when we realized that higher quality was the missing factor, the thing that would get us a price above the cost of production. Higher quality, and a way to link coffee exporters to international markets.

"In 2002 we linked up with the RATES program, and that initiated a change in paradigm. Before RATES, we were all over the place trying to do everything: training, research, marketing. RATES asked us to zero-in on where EAFCA could add value as an organization, where we could have the most impact on the value chain. We narrowed our focus to building trading relationships and support for marketing.

"We understood that trade relationships would have to be built on the basis of coffee quality, so that became the priority task. RATES was able to get experts from the Coffee Quality Institute as well as buyers (from Starbucks, for example) to volunteer their time to train our members in cupping. This was a big step: our coffee processors had one idea of coffee quality, but they needed to be oriented to market perceptions and demands.

"We started to have cupping competitions, and the winners would be promoted in the four principal trade fairs and exhibitions during the year, in the U.S., Europe, Japan, and Africa. Over time, we got relationships going between processors and the preeminent coffee traders and retailers on the global market. Once a year, the major coffee traders come to East Africa — they visit the farms. It has galvanized regional trade and domestic consumption of fine coffee as well. The coffee world wants to come to East, Central, and Southern Africa: it shows EAFCA has a visible value-addition to marketing and product enhancement.

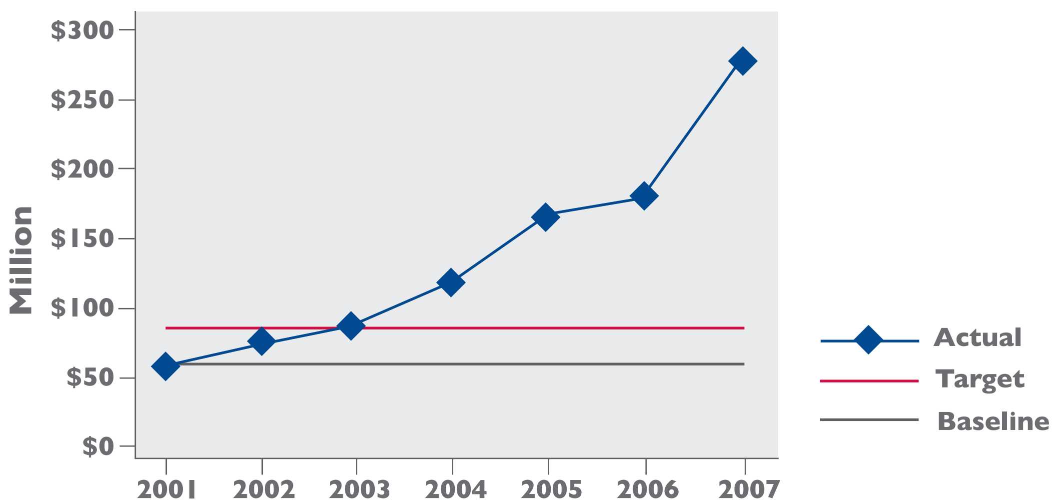
"The way RATES engaged with us was so important: it didn't stand back, but it also didn't ask to shine. RATES gave us the confidence we could manage our own business; it was very strategic that way. It is a major milestone that EAFCA can meet its own operating costs. For country programs, we still need support. Fortunately, our transparency and motivation make us attractive to other donors."

Robert Nsibirwa, EAFCA Executive Director (2000-2007) a key role in perpetuating the demand for higher-quality coffee. Retail shops that source and supply only top-quality coffee help sustain the industry upstream and downstream. These shops are the direct interface with consumers, who more often now demand to know the story behind the coffee they drink. EAFCA can play a role in identifying producers/cooperatives/estates that are adapting their production to meet new market requirements and ensure that buyers are aware of their efforts. Helping to provide the "win-win" for farmers and consumers will ultimately strengthen EAFCA's own utility and position in the value chain.

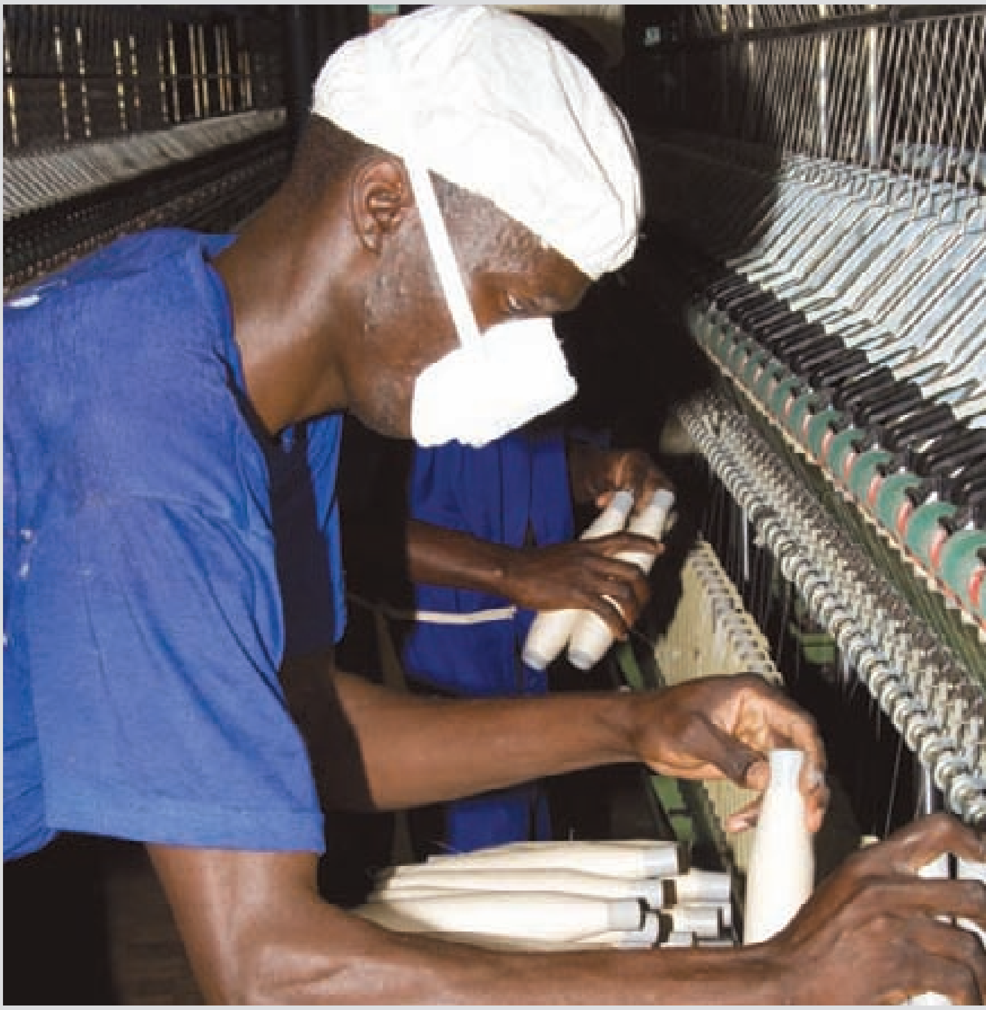
In a consumer-driven marketplace, quality is the primary driver for economic viability. Ted Lingle, former executive director of the Specialty Coffee Association of America, is often quoted: "Quality is sustainable: everything else is not." EAFCA's sustainability rests on a stool with three legs: economic viability, social responsibility, and environmental stewardship. With continued support and encouragement, EAFCA can work with the international coffee industry to find innovative solutions to establishing an economically viable and responsible African coffee sector.

EXHIBIT 2

SPECIALTY COFFEE EXPORTS FROM SELECTED COUNTRIES*



* Burundi, Ethiopia, Kenya, Malawi, Rwanda, Tanzania, Uganda, Zambia, and Zimbabwe



RATES / STEPHEN WALLS

Modern machinery has been installed at Phenix Logistics in Kampala, Uganda to spin organic cotton into thread and cloth for the growing organic apparel market.

CHAPTER THREE

COTTON AND TEXTILES

BUILDING COMPETITIVENESS THROUGH COOPERATION

Many consider the cotton, textiles, and apparel industries in East and Southern Africa to hold the key to regional prosperity. Farmers in several countries — Uganda, Tanzania, Malawi, Zambia — depend on cotton exports for their livelihoods. Other countries — Mauritius and South Africa — have sizeable textile sectors and make finished apparel for export. In 2003, RATES analyzed the cotton value chains in these countries and ascertained farmer and manufacturer views of constraints in the sector, as well as hopes for development. The analysis revealed a dire need for cotton-producing and cotton-finishing countries to come together to discuss the region's growth potential. Cotton stakeholders all along the value chain lacked an avenue to formulate and promulgate critical policy positions with respect to their national governments and international trading bodies.

RATES' long-term strategy in the cotton sector was to strengthen the regional textile industry — the main buyer of (mostly smallholder-produced) lint and the beneficiary of preferential trade under AGOA. A stronger textile industry will in turn increase regional demand for cotton and create more market opportunities for smallholder farmers.

Textile stakeholders expressed the need to break out of the current situation and adopt a regional cotton strategy that would move them toward a transparent legal and regulatory framework, fair taxes, good infrastructure in the form of roads and railways, and access to affordable capital. As an industry, they needed to lobby for reliable power at reasonable cost, reliable water supply, and other govern-

ACTIF has lobbied the drafters of the AGOA legislation and European trade regulators on behalf of the African cotton, textiles, and apparel industry for recognition of the special conditions affecting competitiveness in the region. The Single Transformation Eligibility Clause treating imports of piecework is a centerpiece of ACTIF negotiations.

RATES / STEPHEN WALLS

ment support measures to reduce the cost of doing business. They also needed an effective formal network to communicate with each other about their common problems and goals.

Since the start of the RATES cotton/textile program in 2003, more than $2 billion in cotton lint, yarn, and fabric have been traded through firms based in RATES' target countries (Exhibit 3).

SPEAKING WITH A UNIFIED VOICE

RATES saw that it could play an active role in fast-tracking the region towards an effective trade network: one that provides trade leaders with the services they need to be competitive and move into new investment and trade relationships. Buyers and sellers needed to be linked through trade information services — a Web site, an industry database, and a product trading system — as well as a forum for regional meetings that would bring industry leaders and resource experts together to formulate strategies to move up in the competitive world of textiles and apparel.

RATES began by meeting with national trade organizations and major companies to talk about and build consensus for a regional integration approach to developing the cotton/textiles/apparel value chain. At the same time, work began on a trade networking Web site (www.cottonafrica.com), launched in 2004 to encourage vertical integration of the supply chain (sellers of lint in one country link up with spinners and weavers in another, and they in turn link with apparel makers in a third country).

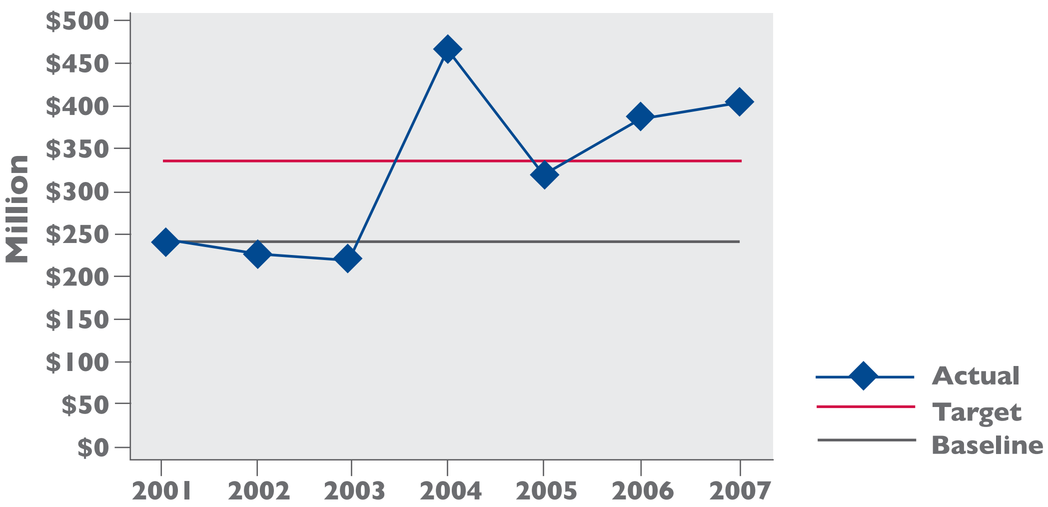
Big changes on the international horizon helped to stimulate industry buy-in to a regional cotton strategy. In January 2005, the World Trade Organization's

Agreement on Textiles and Clothing expired, ending 40 years of restrictive export quotas on Asian textile powerhouses like Pakistan, Bangladesh, and China. At the same time, the region's textilers were having difficulty taking advantage of duty-free exporting under AGOA because their apparel contained yarns or fabric made outside the region, a disqualifying factor.

A regional cotton and textiles executive summit in April 2005 in Nairobi ended with unanimous agreement by industry executives to form a regional African cotton and textiles industry body — the African Cotton & Textile Industries Federation. COMESA and EAC representatives at the meeting endorsed the initiative. It was agreed that an interim steering committee would be set up to immediately start building cooperation, interaction, and links within the region, and to start addressing key issues that arose from the summit. For the first time, the region had the opportunity to become a unified and recognized voice in regional and global trade affairs. Importantly, although ACTIF initially included countries of East and Southern Africa that are also members of COMESA, Southern Africa Development Community (SADC), and the EAC, the association was not designed to be restrictive, and aspired to an Africa-

EXHIBIT 3

COTTON LINT, YARN, AND WOVEN FABRIC EXPORTS FROM SELECTED COUNTRIES*



* Ethiopia, Kenya, Malawi, Mauritius, Tanzania, Uganda, Zambia, and Zimbabwe

MAKING IT WORK: SOME HIGHLIGHTS

- Bedi Investments Ltd., an integrated textile mill based in Nakuru, Kenya supplied fabric for the manufacture of $10 million of uniforms to the Uganda government. The company is installing a knitting plant to diversify into the organic cotton T-shirt market.
- Sochema Co., one of the largest trading companies in Cairo, with more than 20 years of experience in commercial, industrial, and business development in Egypt, has been successfully linked to cotton yarn suppliers from Swaziland, Kenya, Zimbabwe, South Africa, and Mauritius. The company is exploring the possibility of importing 30,000 to 40,000 mt of cotton yarn annually from Eastern and Southern Africa, a potential market value of $100 million.
- Phenix Logistics, the only textile company manufacturing eco-cotton yarn and T-shirts in the region, has continued to supply organic cotton within and outside the region. The company supplied organic yarn to Kenya, South Africa, and Mauritius valued at nearly $3 million. In conventional yarn terms, this is not a large number, but in organic terms, it is substantial.
- Tropic Knits of Mauritius secured a contract with EDUN Apparel (headquartered in Dublin, Ireland) to supply knitted fabrics made from African cotton, to EDUN Apparel 'accredited' clothing factories in Africa. Tropic Knits is sourcing fiber from Zambia, Tanzania, Uganda, and Malawi. The company has sold more than $10 million of knit fabric to Lesotho apparel manufacturers (who will market their clothing products to the United States under AGOA) and is keen to expand its market to Kenya.
- Another integrated textile mill in East Africa has expanded its focus on regional trade and is supplying new fabric orders to Sudan, Democratic Republic of Congo, and Malawi, currently valued at $8 million. As a result of this new demand within the region, the company has made a $5 million investment to expand its weaving capacity and will shortly diversify into organic yarn production for export.
- Bedi Investments Ltd. and Sunflag of Kenya have started links with South Africa to introduce the kikoyi (an "African wrap" that has been traditionally confined to East Africa) to new markets in Southern Africa. Initial interest and demand has been exceptionally high — a good example of exporting the 'culture' and 'traditional' products from one region to a new African market.

wide view of the cotton, textiles, and apparel sector.

ACTIF has been successful for several reasons. Although it includes all sectors in the value chain — from lint to ginning to fabric to garment — it has a specific and narrow focus on trade issues. Although private-sector ownership of the association and its activities is stressed, ACTIF has a record of bringing the public sector into its meetings and events to advance government understanding and acceptance of its goals. Although it cares about the allegiance and commitment of nationally based trade institutions, it encourages diverse international participation as a way to promote ACTIF as Africa's voice on cotton and to educate members on trends and issues globally. Its executive is elected, and its action committees — Global Trade Initiatives, Investment and Finance, Inter-Regional Trade and Supply Chain, and Production, Ginning, and Lint Trade — allow for broad-based participation.

THE FUTURE BELONGS TO THE ORGANIZED

The cotton/textiles/apparel trade environment in Africa is complex, with competitive dynamics among and between countries, regions, and sub-sectors. In only two years ACTIF has become the "go-to" organization to resolve short-term problems and to think strategically about the African cotton value chain. One important short-term issue for a well-functioning market is a "single transformation" rule of origin, under which the European Union would allow duty-free imports of African textiles containing fibers from non-African countries, as long as the value was added to those fibers in Africa. ACTIF is advising its membership and the European Union during ongoing negotiations to adopt a single transformation rule of origin as part of new European Partner-

cottonafrica.com
The African Cotton & Textiles Trade Link

More than $900 million in cotton lint, yarn, and fabric offers to buy and sell were recorded on www.cottonafrica.com from 2003 through 2008.

RATES / STEPHEN WALLS

Skilled workers and effective quality control are essential to meet the stringent requirements of international apparel buyers and major apparel brands.

SUCCESS STORY

A Strategic Salesman for a Strategic Industry

RATES / NANCY HEDIN

Sales Manager Chris Kakyo and Managing Director Yuishi Kashiwada confer at the Phenix Logistics exhibit at ACTIF's 2008 conference in Kampala. The topic for the conference was organic cotton, which attracted the participation and sponsorship of Organic Exchange, a global membership organization supporting the organic cotton value chain. Phenix hopes to expand sales to the organic cotton retail market, which Organic Exchange claims has grown from $300 million in 2001 to $2 billion in 2007.

Phenix Logistics is a fully integrated textile and apparel company in Kampala, Uganda. It has recently converted to manufacturing 100 percent certified organic cotton knitwear, supplied by organic cotton farmers in the north of the country. Phenix's managing director, Yuichi Kashiwada, has worked in Uganda's textile sector for 45 years, surviving one political upheaval after another, to play a leading role in the Uganda Ginners and Cotton Exporters Association (an ACTIF founding member) and ACTIF's Global Trade Initiatives task force.

Phenix's strategic sales manager, Chris Kakyo, has also survived upheaval, having been orphaned and obliged to make his own living from a young age. Since coming to work for Phenix in 2005, Chris has had a mission: to sell the highest-quality finished goods made of organic cotton to the international market. He explains: "We know African textiles cannot compete with China and other Asian countries in conventional terms: their costs are too low. We also know we can't maximize our profits locally — we can't compete with second-hand clothing from Europe and the U.S. To stay in business and be profitable, we had to find a niche market that China can't supply: that niche market is organic cotton clothing for the global green and fair-trade scenes. But we need to do it right, so that our customers are happy and bring in more and more orders."

"Getting it right" is the goal of Phenix's all-African middle management team, who have learned from Mr. Kashiwada the Japanese concept of *kai-zen*, or "continuous improvement." Says Chris: "We are ISO 9000-certified, and *kai-zen* is the principle that helped us to achieve that. When it comes to people, we strive for *wa*: team spirit. Right now, our team spirit is really developing. Before, as a manager, I might not have shared with the team that I am experiencing some bottleneck. But when there is team spirit, we care about solving problems together."

Chris hopes to one day target the domestic and regional market segments with the same determination he approaches sales to the United States and Europe. Says Chris: "The idea of marketing and integrating regionally is still new: ACTIF is good for promoting that concept. I can say I now think of 'my brother in Kenya' when contemplating new product lines. For example, we would like to sell organic cotton terry towels to the hotel and tourism industry here. We are looking for someone in the region who could weave our organic yarn into towels; before ACTIF, that energy just wasn't there."

Will he stay with African textiles? "I've got knowledge of textiles down to the nitty-gritty. The potential in the region is huge — yes, I think I'll stay with textiles."

RATES / STEPHEN WALLS

ACTIF's June 2008 conference in Kampala, Uganda focused on the future of organic cotton in Africa and on world markets. Small- and large-scale cotton producers, ginners, spinners, weavers, apparel makers, and policymakers from 27 countries gathered to look at the opportunities and challenges of producing organic cotton and adding value throughout the entire cotton-textiles-apparel chain. Ultimately, the region will need to market a "Brand Africa" to consumers; this is what Ugandan fashion designer Sylvia Owori is accomplishing with her line of organic cotton clothing for men and women. Sponsored by Dunavant Enterprises, the world's largest privately held cotton merchandiser, Ms. Owori presented her fashions at a gala event during the conference.

ACTIF has effectively lobbied for a Single Transformation Eligibility Clause as part of European Partnership Agreement negotiations

ship Agreements — this should significantly increase textile exports from Africa.

For the longer term, ACTIF is providing input and direction to COMESA's regional industry strategy for cotton, textiles, and apparel. ACTIF's strategic plan for COMESA takes account of the prediction that cotton commodity prices will decline, and that consequently the African cotton/textiles/apparel value chain will be under pressure to improve productivity and reduce costs to be competitive. The weakest link in the regional supply chain is the spinning and weaving sub-sector; RATES and ACTIF continue to work to identify regional, pan-African, and international organizations to invest in this sector, which requires COMESA support. Likewise, the lint trade — the closest link to the production sector (and smallholder farmers) — requires investment to ensure the fiber-to-fabric link.

RATES

Given an opaque trading environment — lacking uniform grades and standards and burdened by unpredictable trade embargoes — large volumes of grain have been traded informally across borders via bicycle. RATES' Maize without Borders initiative eliminates many incentives to engage in illegal trade and encourages formal, structured grain trade.

CHAPTER FOUR

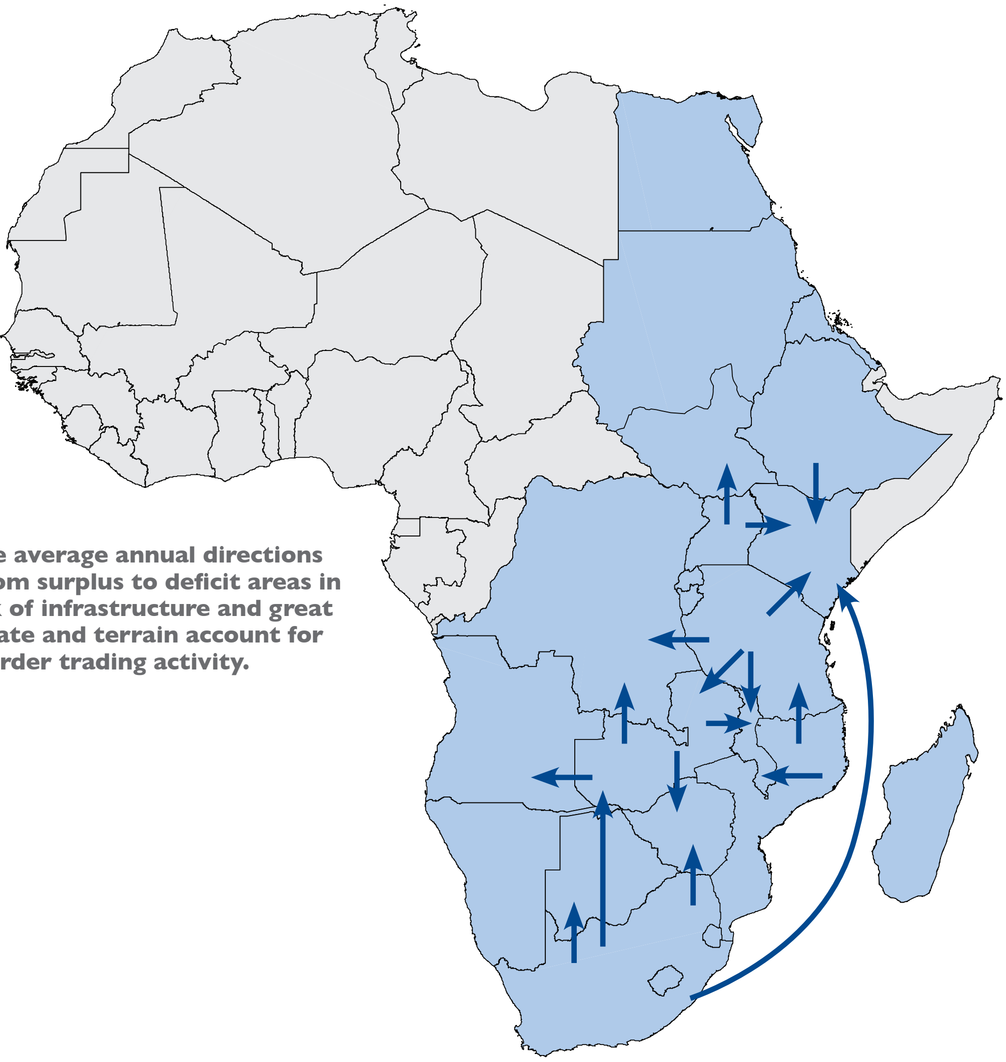
MAIZE AND OTHER GRAINS

Food security has been a hot-button issue across the African political, economic, agricultural, and humanitarian spectrums since long before the current (2008) food crisis. In the minds of East Africans, maize *is* food security; predicted shortages are cause for alarm, and, often, export bans. And yet even in a time of perceived scarcity — 2008-2009 — East Africa will produce a maize surplus of some 453,000 mt, according to balance sheet estimates published by EAGC and the Regional Agricultural Trade Intelligence Network. The question is whether the surplus can be captured for trade, given that there are surplus and deficit production areas and corresponding formal and informal flows of maize. A case in point was the grain shortage of 2002-2003, when trade accounted for three-fourths of food inflows to deficit countries Zambia and Malawi. The goal of the RATES maize program — Maize without Borders — is to reduce food shortages through the free commercial movement of maize.

CREATING ORDER IN AN UNSTRUCTURED MARKET

The chief barrier to trade is the atmosphere of food insecurity that overhangs the region from one year to the next, based on the existing situation in the farm sector. Production of maize in general suffers from low levels of public and private investment in inputs such as fertilizer and improved seed varieties; reduced government attention to farm extension services to help poor smallholders improve yields; and a lack of proper storage systems to reduce post-harvest losses. Production failures are compounded by the lack of access to maize that people experience, which is a function of how maize moves (or doesn't move) from

TYPICAL YEARLY COMESA MAIZE TRADE FLOWS



Arrows show the average annual directions of grain flows from surplus to deficit areas in East Africa. Lack of infrastructure and great variation in climate and terrain account for intense cross-border trading activity.

surplus to deficit areas. In times of shortage, East African governments are likely to impose export bans, in effect hoarding grain inside their borders. In times of surplus, import bans are imposed, so that local prices aren't further depressed by oversupply. These bans are not triggered by explicit levels of grain in national reserves, but are imposed as a reaction to the fears people have about scarcity, or that farmers and traders have about a price shock related to oversupply.

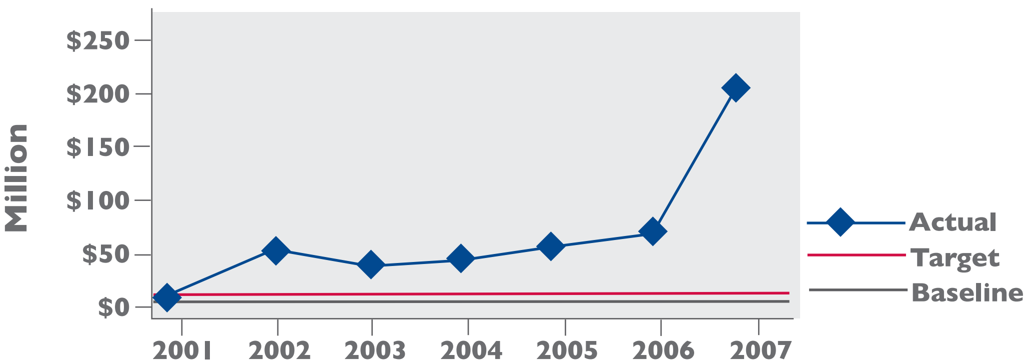
Access is also hampered by poor East African road and rail networks. Dirt roads connecting farm areas to population centers are often impassable in rainy seasons, and the limited rail network is subject to disruption or doesn't operate at all. The same infrastructure difficulties exist for relief food aid; it is costly and logistically complex to deliver.

Commercial constraints also exist. Chief among these is a critical lack of information upon which to base market activity. Unlike farmers in the west, East African maize growers have no idea of the price grain trades for outside their own communities. A defined price discovery mechanism — such as a commodity exchange — does not yet exist in most East African countries. Most have marketing boards, which engage in commercial buying and selling and relief operations, distorting the commercial scene. Few marketing boards track informal cross-border trade (which means they don't have an accurate food balance sheet), stay current on regional supply and demand dynamics, or forecast crop development and harvest in the region. Some sophisticated market information systems operate in the region, but these are largely donor-funded and have yet to form part of a structured trading system.

Another significant commercial constraint is the absence of harmonized standards on which to base the grade and price of grain for trade on regional markets. Well-defined and agreed-on standards for moisture content, foreign matter, and other post-harvest grain attributes are necessary for large-scale buying and selling. Likewise, trade policies — regarding tariffs, insurance, sanitary/phytosanitary (animal and plant health) regulations — should be harmonized to enable

EXHIBIT 4

MAIZE EXPORTS FROM SELECTED EASTERN AND SOUTHERN AFRICAN COUNTRIES*



* Ethiopia, Kenya, Malawi, Mauritius, Tanzania, Uganda, Zambia, and Zimbabwe

MAIZE WITHOUT BORDERS IN ACTION

- The government of Malawi, through its National Food Reserve Agency, contracted the Malawi Grain Traders and Processors Association to supply 400,000 mt of white maize for the Zimbabwe market in 2007-2008. GTPA members also contracted more than $60 million in grain sales to Zimbabwe.
- The Kenyan government (through the lobbying efforts of EAGC members) removed duties on imported grain, allowing 200,000 mt of maize to be imported from regional markets in 2008. The decision was based on information provided through RATIN and FEWSNET showing that Kenya faced a severe grain shortage. Tanzania has recently removed its export ban, to provide 50,000 mt of this grain.
- Corn Products of Kenya and Afro-Kai in Uganda completed a forward contract for 10,000 mt of white maize at an indicative price of $200/mt free on truck Eldoret in 2007. This trade involved the use of rail cars instead of the traditional trucks, which will substantially reduce the cost of transport (if the rail system continues to improve).
- The *Agence De Development Rural* bought 90,000 mt of white maize in 2006 from Uganda-based traders for the Democratic Republic of Congo market, at an indicative price of $192/mt transacted through the Ruhengeri market.
- The World Food Programme, the largest buyer of grain in the region, has approached EAGC to provide suppliers for local purchases.

free trade, which is not currently the case.

When trade is disorganized to this degree — with governments and private traders competing with each other, flourishing illegal cross-border trade flows, limited private sector growth due in part to the unpredictability of government action — food insecurity is not likely to go away. Neither is corruption, which thrives when bribes are necessary to move food from surplus to deficit areas. The price of corruption is passed on to consumers in the form of higher food prices. In the process, grain traders acquire reputations for being unscrupulous, and governments for being incompetent.

With its private sector focus, RATES took aim at the main commercial constraints on regional grain trade by working to establish a market information system to inform the industry, a harmonized regional policy on maize trade, and building blocks for a structured trading system.

THE PRIVATE SECTOR TAKES THE LEAD

In 2003, RATES took the initial step toward strengthening the regional grain market by opening a trade office, which functioned as a call center to manage trade inquiries and market intelligence, and to tie traders together in a network served by electronic media — Internet, telephone, radio — as well as print media. The trade office managed two Web sites: www.tradeafrica.biz for traders of maize, beans, and pulses to post buy and sell bids; and the Regional Agricultural Trade Intelligence Network, www.ratin.net, that provides the maize trade balance sheet position, for formal and informal trade, in English and Kiswahili for Kenya, Uganda, Tanzania,

RATES

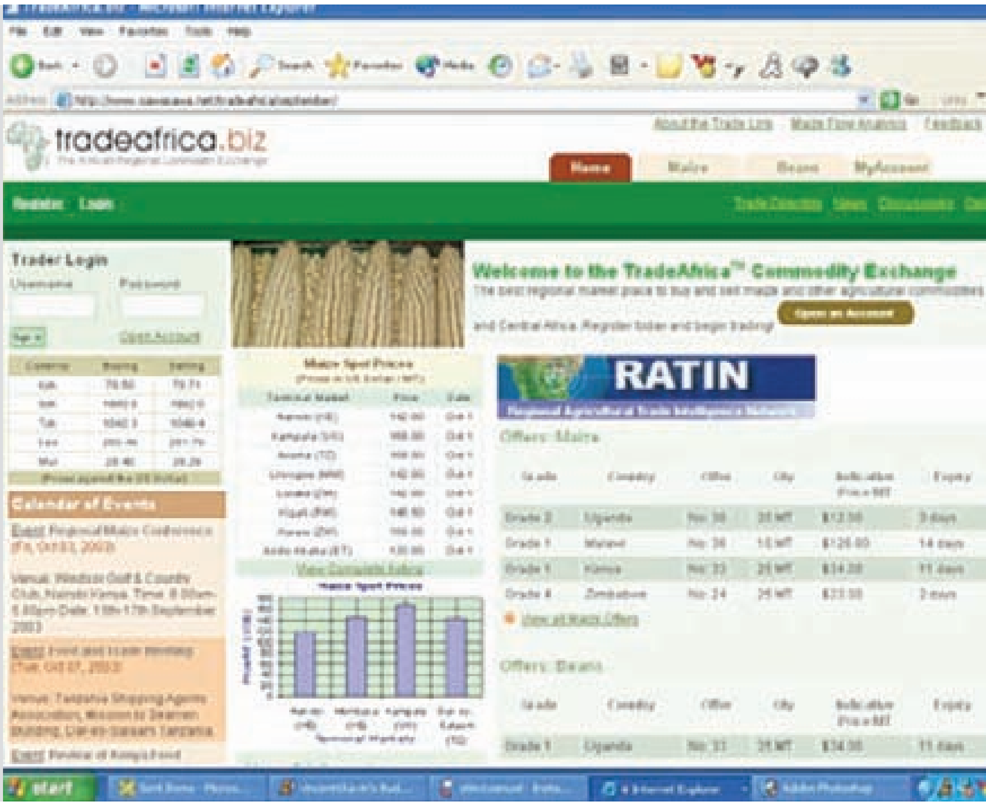
Sam Wahome (top right) is a small grain trader who was able to substantially increase his volume of sales through the RATES business services RATIN and www.tradeafrica.biz. He now sells to Farmer's Choice Ltd., the major processor of pork, beef, and poultry products in Kenya.

RATES

In October 2005, RATES, together with the EAC and COMESA, convened a grain summit to bridge the gap between rhetoric on market liberalization in East and Southern Africa and realities on the ground. The focus was on marketing systems to move farm commodities through value chains to the consumer that are competitive, efficient, and fair for all stakeholders. The summit was the starting point for the Eastern Africa Grain Council and its pivotal role in defining the future of grain trade in partnership with the EAC and COMESA.

RATES launched www.tradeafrica.biz in October 2003 to provide a mechanism to trade primarily maize and beans in East and Southern Africa. The Web site links buyers and sellers — large and small — through an electronic trading platform. It is the deal-making complement to www.ratin.net, the commodity market intelligence network RATES designed and launched to supply traders with improved early warning marketing and trade information to encourage the flow of food from surplus to deficit regions.

RATES



and Rwanda. The trade office also published a traders' directory, organized by industry subsector and country, on both Web sites to make it easy to search for and contact trade partners. Those listed in the maize trade directory received the *Bi-Weekly Trade Brief* to keep them up to date on price changes, crop availability, and COMESA policy news or events.

At the same time, RATES began promulgating its new paradigm for the EAC and COMESA: Maize without Borders. Simply, Maize without Borders means grain can be traded freely around the region, unconstrained by bans and facilitated by transparent market information. In the long run, Maize without Borders implies formal, structured trading systems in COMESA countries, with mechanisms to store grain, finance farmers using grain as collateral, and manage price risks through a commodity exchange. The concept was adopted by the EAC and COMESA in 2003, and the process of bringing other stakeholders on board began.

In 2003, RATES had also analyzed the maize value chain in the six major producing countries: Ethiopia, Uganda, Kenya, Tanzania, Zambia, and Malawi. When the analyses were complete, RATES went back to each country and convened consultative workshops with the major maize sector players to discuss value chain findings and recommendations, introduce Maize without Borders, and begin a public-private dialogue on harmonizing regional trade policy.

Out of the workshops emerged national working groups, formed by the most proactive trade leaders in the private sector, as well as government agencies involved with customs, SPS, and grades and standards. The national working groups, which operated on a volunteer basis, recognized that through their expertise they could assert influence not only on their own governments, but also on the direction of regional trade. With its COMESA-wide reach, RATES was able to network the groups and encourage their evolution as a forum for discussing private sector positions on trade, and private sector interface with government agencies. Some of those national working groups evolved into formal industry trade associations, including the Kenya Grain Council, which later became the Eastern Africa Grain Council.

The EAGC came into being in September 2006, following several intensive meetings of Kenyan grain trade leaders to work out the design and mission of a regional body. Such a council would have to operate transparently, with a code of ethical conduct and a uniform, regulated, and impartial approach to all of its functions, particularly resolution of contract disputes. It would have to offer a way to reduce seasonal market price volatility by effectively acting as a spot commodity exchange: making spot prices transparent gives everyone an indication of overall supply and demand. Price information — which would be supplied by www.ratin.net — had to be accurate, timely, public, and readily available. The council would also have to help bring more liquidity to the grain market through bank finance.

The EAGC — whose membership comprises producers, traders, processors, transporters, and exporter/importers — performs these functions at a high level, as witnessed by creation of Kenya's first warehouse receipt system, in Nakuru, outside Nairobi, in May 2008. Lesiolo Grain Handlers was certified and licensed by the EAGC to store maize, and other facilities like it will hopefully replace the Kenyan National Cereals and Produce Board's (NCPB) monopoly over post-harvest purchases of grain. Under the NCPB monopoly system, farmers had to wait a long time for the government to process their payments, during which charges were often made that prices were being distorted. Now, farmers who store at Lesiolo will be able to cash their warehouse receipts at Kenya's Equity Bank, which has made 1.5 billion Kenyan shillings available for the receipt system. Because the government of Kenya cannot afford to buy all the country's grain post-harvest, meaning many of its silos are empty, the entry of the private sector offers the public sector an opportunity to lease its facilities and turn losses into gains.

SUCCESS STORY
Creating Order in an Unstructured Grain Market

RATES / STEPHEN WALLS

Anne Mbaabu, executive director of the Eastern Africa Grain Council (2006-2008), is applying her grassroots knowledge of smallholder farmer operations to advocate and implement a structured trading system — especially warehouse receipting — for food in her home region of eastern Africa, and continent-wide. The result will be an improved ability to deal with chronic food shortages in Africa.

Anne Mbaabu came to the attention of the RATES program when she was working to enhance African food security under a program funded by the United Nations Industrial Development Organization. With a focus on market access, Anne travelled the continent advising on the feasibility of connecting growers of sunflower and palm trees with oil processing facilities. She trained smallholder farmers — mostly women's collectives — to use and maintain solar-powered equipment provided by the organization to dry fruits, vegetables, and fish. Always, her goal was to link smallholders to markets by adding value to their products.

In 2006, Anne, who has an M.B.A. and a degree in food science from the University of Nairobi, was recruited by RATES to bring her value chain strengthening expertise to the EAGC. As executive director, she concentrated on maize, the leading staple food crop in the region. "It's a political crop," says Anne. "If people are told there's no maize, they'll go to the streets, which is not true for other staple foods." How did she advocate for free trade of such a sensitive commodity? "I tell politicians to think outside the box. Instead of panicking and banning exports when there is a grain shortage, think in terms of raising productivity and farmer confidence for the next harvest. Political leaders should understand that export bans and hoarding hurt their own people; they should release stocks to the millers and see that farmers are paid so they can get ready for the next growing season."

For two years, Anne supported the members of EAGC in promoting the objectives of Maize without Borders, which she says is successful, except in times of scarcity. The Kenyan minister of agriculture was invited to the April 2008 annual general meeting, where he took questions from members on the country's handling of the ongoing food crisis. He also heard from Anne on alternatives to export bans and hoarding in strategic grain reserves, specifically, a warehouse receipt system whereby the government would borrow to purchase a small percentage of the available crop, get money into the hands of farmers quickly, and focus on productivity enhancement. Anne was a primary mover and shaker behind the successful launch of an EAGC-certified warehouse receipt system in Kenya in May 2008.

In summer 2008, she returned to travelling the continent as director of market access for the Alliance for a Green Revolution in Africa, funded by the Rockefeller Foundation and the Bill and Melinda Gates Foundation. Her focus is on the enabling environment for business, and she expects to be promoting the EAGC structured trading system goals Africa-wide. Her goal: "In the medium term I would like to see 10 million small-scale farmers linked to the market; in 10 years, I would like to see 25 million linked."

KENYAN FARMERS EMBRACE WAREHOUSE RECEIPT SYSTEM

" 'The poor roads network made it impossible for farmers to access storage facilities, which are often situated far from the farms,' says the Nakuru region Kenya National Federation of Agricultural Producers (Kenfap) chairman, Mr. Samuel Gitonga.

'Those who managed to transport their produce were often turned away on grounds that they exceeded recommended moisture content,' Mr. Gitonga said.

As a result, the farmers' lobby said the cost of post-harvest grain handling stretched the smallholder farmers by up to 40 percent.

It is a common feature to find farmers drying grains under the direct elements of weather either in the farms or on the unused sections of tarmacked roads during harvest times due to the inability of the NCPB to purchase all their produce."

"Breaking New Ground in Grain Storage, Handling," Business Daily Africa, May 8, 2008.

The success of the EAGC in launching the warehouse receipt system, as well as lobbying for the widespread introduction of structured trade in the region, has attracted considerable support, including from other development partners. In July 2008, the Swedish International Development Agency granted EAGC $3 million to expand its secretariat across the region and to support farmers directly in structured trade participation, such as through the warehouse receipt system described above.

BUILDING A MORE STRUCTURED TRADING SYSTEM

The RATES program witnessed a dramatic change of attitude toward regional grain trading with the acceptance of the Maize without Borders concept. This initiative has caught the imagination of public sector decision-makers who, as they become better informed, are becoming less resistant to removing non-tariff barriers that impede the commercial flow of food from surplus to deficit areas. Indeed, RATES has helped them see that cross-border trade across porous boundaries is already thriving, and that food security can only be enhanced by formalizing this trade. Growth in cross-border trade is ready to boom, based on trade liberalization within the countries where former marketing boards are no longer the sole players in the grain industry, and where newly formed producer organizations, large and small traders, and major food processors are revitalizing the regional value chain.

However, the growth of cross-border trade has not yet fully translated into a more structured trading system that encourages price stabilization, credit access by producers and traders, forward contracts, and an efficient commodity marketplace. Consequently, the EAGC will need to continue its campaign to promote the start-up and growth of warehouse receipt systems, collateral management, and commodity exchange initiatives. At the same time, EAGC members must work to ensure that the building blocks for trade —storage capacity, ability to aggregate volume, institutionalized grades and standards, and adherence to contracts and rules of trade — are in place at the national level.

SUCCESS STORY
Busia Cereal Traders Association

RATES

Samuel Wahome (in blue cap) is one of the small- to medium-scale traders who account for more than 80 percent of East African trade in maize, beans, and rice. They were the main targets of RATES' efforts to improve the flow of information on grain supply, demand, and pricing in the region. Since www.ratin.net was launched, about 30 small trader associations have been formed to share RATIN's monthly bulletin. RATES also used TV, radio, and print media to disseminate market information in the region.

Samuel Maina Wahome is a maize and bean trader in Busia, western Kenya. His business has benefitted from RATES support, and he "blesses the day" he met RATES commodity specialist Steven Njukia in his small town. It "was a very good day for me," he said.

RATES invited Samuel to a two-day meeting in Nairobi, the first of three sessions he attended with other traders to discuss expanding business in the grain sector. In Nairobi, he met traders from Uganda and Tanzania; he kept in touch, and now he trades with them. He also met large maize buyers from Kenya at the RATES meetings and began learning to negotiate prices with them. In addition to contacts, he acquired valuable information about regulations for clearing goods at the Kenya-Uganda border. As a result, he and 19 colleagues have formed the Busia Cereal Traders Organization, with a small office on the border with Uganda to help their members with cross-border trade. There are no more hassles with border officials. RATES also provided moisture meters so he can meet the quality standards of the larger formal buyers.

Samuel's business sales have grown four-fold, from 80 to more than 300 mt in 2006, and RATES provided continuing help. For example, the RATES grain specialist helped him resolve a problem with a transporter. RATES also published grain prices in neighboring countries on a monthly basis, which is critical to his own pricing. Samuel would like to export, but he needs stable financing, information on prices in countries further away, and contacts in those countries. Access to finance on a rapid basis is a real constraint, as is infrastructure; the poor state of the roads increases transportation costs. These are issues he would like his national association to address.

With help from RATES, Samuel enhances regional food security by bringing grain from surplus to food deficit areas. He is also able to purchase food to meet his own family's needs.

In East and Southern Africa, national grain boards have historically been the main buyers of grain harvests, in theory to keep prices stable and to ensure food security. But grain boards often don't get cash to farmers fast enough for them to reinvest in the next crop and can't respond to market price fluctuations that would benefit farmers. Nor has government stockpiling prevented critical food shortages that are met with humanitarian aid.

RATES

RATES

Currently, aid agencies are the largest buyers of grain in East Africa. Here, Kenyan government officials inspect a delivery of food aid. RATES contends that with free grain trade across borders, and with warehouse receipting replacing stockpiling on a large scale, deficit areas can be supplied with maize more efficiently and sustainably.

RATES / STEPHEN WALLS

Domestic milk consumption in East and Southern Africa is low — about 36 liters per person per year — compared with the World Health Organization recommendation of 200 liters. Milk processors in the region are developing flavored milk drinks, such as these boys are drinking, to improve its popularity.

CHAPTER FIVE

DAIRY

The East African dairy industry was selected for RATES involvement because of its potential to improve food security; its largely smallholder farmer production base, which contributes 25 percent of the livestock sector's share of gross domestic product in the region; and the need for private sector participation in increasing intra-regional trade in dairy products. In 2004, when RATES began its work in the dairy sector, imports of dairy products from Europe, the United States, and South Africa accounted for 95 percent of the COMESA and EAC markets, valued at $120 million per year. This, despite the fact that steadily increasing demand generated by population growth, urbanization, and rising incomes signals market opportunities and benefits for the dairy industry all along the value chain, from rural producers to milk processors and marketers.

In 2004, RATES conducted baseline studies in Ethiopia, Kenya, Malawi, Mauritius, Tanzania, Rwanda, Uganda, and Zambia, which accounted for 46 percent of East African milk production in 1997-2003 and more than 60 percent of regional trade in dairy products. The studies uncovered many reasons that dairy farmers are unproductive, including the high cost of animal feed and health care, lack of access to finance for investment, the absence of a stakeholder organization to help coordinate and regulate the national dairy industry, and poor or no farmer access to markets. And yet, initiatives to promote milk production and consumption are underway in many countries, and where there are national programs aiming at improved dairy farming, smallholders are trying to adapt.

RATES' studies showed that the dairy processing industry in the region was fairly developed, capable of producing milk powder, ultra-high temperature (UHT) milk, pasteurized milk, cheese, butter, yogurt, ghee, cream, and ice cream. But of an average installed capacity of 3.5 million liters per day, only 1 million liters was being used. With unmet demand and excess processing capacity, the potential of regional trade to stimulate growth seems clear.

BARRIERS TO TRADE

In 2004, RATES reviewed the trade policy and regulatory environment for dairy products in the COMESA and EAC region and found five areas of constraint:

1. *Import controls.* Countries have routinely used import bans to protect their domestic dairy industries, not to signal real concerns over food safety or unfair competition.

2. *Tariffs and non-tariff charges.* Countries did not have a harmonized approach to tariffs — either internal or external — or to non-tariff charges, such as fees to process an import declaration form.

RATES / STEPHEN WALLS

The Zambia Dairy Processor's Association (ZDPA) exhibits at ESADA's third annual conference. The ZDPA has been successful in negotiations with Parmalat, the country's largest milk processor, to limit the kinds and volumes of dairy products imported from abroad. Products like milk and yoghurt, which have short shelf lives, are increasingly supplied by small local processors under linkage strategies encouraged by ZPDA and adopted by Parmalat.

RATES / STEPHEN WALLS

Brookside Dairy is one of the largest and most modern dairy processors in Kenya and the region. It produces superior quality milk, which it sources from 80,000 farmers, only about 7 percent of which are commercial-level producers (the rest are small-scale).

3. Sanitary requirements. Requirements for animal and public health (attestation requirements) were not standardized and there was no method for sharing information regionally on dangers to animal health. Many institutions are involved in attesting to health — veterinary services, ministries of health, bureaus of standards, and local authorities — and approaches to certification needed to be rationalized.

4. Quality and food safety standards. Quality standards and testing methods differed in each country and between the EAC and COMESA.

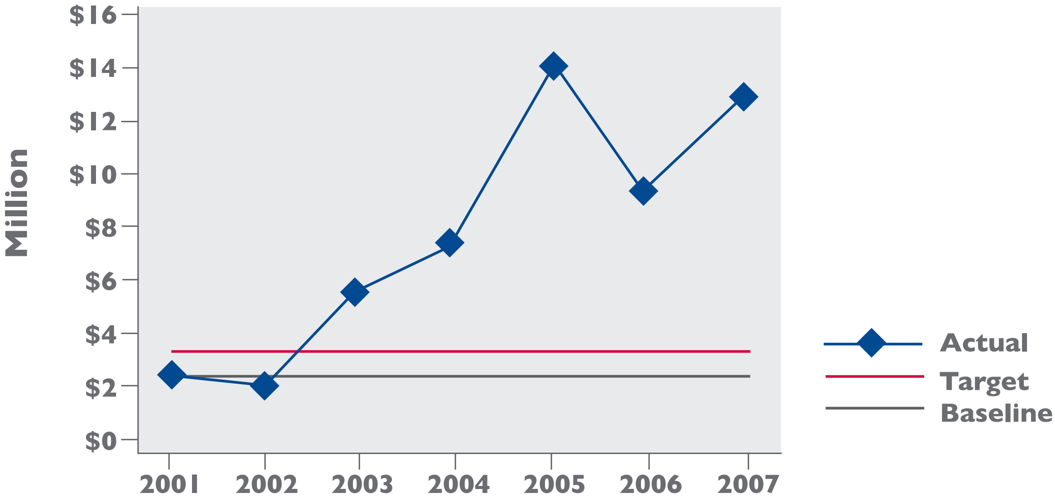
5. Customs clearance procedures. COMESA has a simplified single-entry document and certificate of origin to facilitate cross-border trade of dairy products by small and medium traders. The EAC also has a customs union to reduce paperwork. But there are many other forms and procedures (for example, relating to sanitary inspection and food quality and safety) issued by a multiplicity of institutions that add significant costs to traders.

Sanitary requirements, food safety and quality standards, and trade registration forms are all legitimate concerns for regional governments. The challenge of rationalizing and harmonizing policies was to take these technical and economic issues into consideration, discuss them with informed stakeholders at all levels, and be aware that ultimately, public and private stakeholders would have to make tradeoffs between financial interests and the ability of individual countries to effectively implement and enforce agreed-on standards.

Discordant trade policies and market regulations significantly constrain the dairy industry, but

EXHIBIT 5

DAIRY PRODUCT EXPORTS FROM SELECTED EASTERN AND SOUTHERN AFRICAN COUNTRIES*



* Kenya, Malawi, Tanzania, Uganda, Zambia, and Zimbabwe

RATES' analysis showed that the lack of market networks and private sector alliances was also a key factor in the unexploited regional market potential. For RATES to be able to develop intra-regional export markets, policy constraints and private sector fragmentation had to be addressed.

Through an agreement with dairy industry giant Land O' Lakes, RATES brought on board a marketing specialist to ensure the program's dairy strategy would promote industry ownership of activities and that the region's key players could be networked through trade links and market information. Land O' Lakes' offices around East Africa helped RATES quickly distinguish dairy-deficit-countries from dairy-surplus and to understand regional import and export flows.

Following RATES' approach, consultative workshops for industry stakeholders took place around the region for review and discussion of trade protocols and their impact on development. High-level public sector participants — such as Tanzania's minister of livestock and water — became convinced of the need to work with their national associations to improve the environment for trade. Private sector participants became aware of the long-term opportunities that regional trade presents and agreed that their growth and development depended on overcoming trade barriers in the short term.

In October 2004, RATES convened a regional dairy executive summit for dairy processors, distributors, and regulatory agencies from 12 countries. The utility of a regional development strategy, along the lines taken by the coffee and textile sectors, was debated by the 62 executives in attendance. The fact that annual imports to COMESA countries, valued at an average of $90 million, far exceeded the $7 million in annual trade between COMESA countries, created a sense of urgency among the commercial stakeholders to unite; ultimately, a resolution to form a regional dairy association was passed unanimously.

The Eastern and Southern African Diary Association was led initially by a steering committee composed of the heads of five national dairy associations. The immediate need was for a trade policy platform to take to the EAC and COMESA. The issues identified in the consultative workshops formed the basis of the platform. Recommendations to harmonize SPS requirements and certification procedures and to develop regional product quality standards were presented to COMESA and EAC for intro-

RATES / STEPHEN WALLS

Kenya's Spin Knit Dairy, which markets milk under the brand name Tuzo, has partnered with women's boxing celebrity Conjestina Achieng to promote milk as part of athletic excellence. Here, Spin Knit Managing Director Bhupendra Shah poses with Achieng for a publicity campaign.

duction through their policy-making structures.

To build momentum behind policy reform, RATES established a trade policy office at the COMESA secretariat in Lusaka. The RATES advisor in Lusaka interfaced directly with policy-makers and in so doing, greatly improved coordination with COMESA's Trade, Customs, and Monetary Affairs Division and the Investment Promotion and Private Sector Development Division — not only on dairy matters, but for all RATES commodities.

ESADA's focus was on the free and transparent ebb and flow of milk products throughout the region, based on seasonal supply highs and lows, along with a focus on value-added processed goods (UHT, yogurt, cheese, and ice cream) that have a regional market. Three core member services support that aim: making regional market information freely available, linking potential trade partners and their products, and providing a regional voice in the international dairy arena. The first two were united on ESADA's Web site, www.dairyafrica.com. The third service — providing a regional voice for the industry — developed over time, with key interventions that proved ESADA's usefulness to members.

One such intervention was trade dispute resolution. With its knowledge of EAC and COMESA trade regulations, ESADA could step in as an honest broker to arbitrate for disputing parties. In the case of Zambia's rejection of Kenyan UHT milk imports, ESADA prepared the way for a Zambian audit team to review Kenya's SPS and veterinary inspection systems so trade could resume. A similar dispute between Kenya and Tanzania was handled by ESADA in the same way.

ESADA became active in regional and international industry forums. It joined the International Dairy Federation, which represents 53 countries producing 82 percent of the world's milk. It participated in trade events such as the All-Africa Dairy Expo, the International Dairy Federation-World Dairy Summit, and the Eastern and Southern African School Milk Conference. It also inaugurated its own event, a regional dairy conference and exhibition in 2005, as its principal revenue-generator. The first event was attended by 180 delegates from 20 countries.

At its second regional dairy conference, ESADA signed a memorandum of understanding with COMESA, recognizing the association's role in setting dairy policy among COMESA member states. ESADA signed another memorandum of understanding with the Milk Producers' Organization of South Africa to adopt its *Dairy Mail Africa* newsletter as a partner publication, funded through advertising.

In 2006, ESADA facilitated a landmark meeting of key government agencies and leading commercial dairy firms in the first East Africa Dairy Trade Roundtable, to discuss case studies of impeded trade and lost

EAST AFRICA CHEESE AND WINE FESTIVAL

ESADA, in partnership with Exclamation Marketing Ltd. of Nairobi, held the first wine and cheese exhibition and competition in Nairobi on August 26, 2006. The event drew more than 1,500 cheese-lovers, who were able to sample regional wares. Seven cheese companies from Uganda and Kenya provided 62 samples to be judged. Agro-Expo from South Africa sponsored the participation of Denmark's Christian Hansen, a well-known cheese specialist, to help judge the cheeses. Hansen also conducted a training course before the event for 30 ESADA cheese processing members in the basics of cheese production, quality assurance, and marketing.

RATES / STEPHEN WALLS

ESADA's second annual wine and cheese festival, held in Nairobi in September 2007, was attended by some 1,500 people. The goal of the festival was to promote consumption of cheese in the region; to that end, attendees were treated to a celebrity cook-off, with cheese as the main ingredient, A blue cheese from Nairobi-based Brown's Dairy was declared the winner. Interested parties also had the chance to learn about cheese-making from South African expert Kobus Mulder.

trade opportunities. The meeting created a forum to establish trade protocols among Kenya, Tanzania, and Uganda; the roundtable approach to resolving trade disputes set a precedent that will be repeated periodically.

BUILDING A COMPETITIVE DAIRY INDUSTRY

ESADA has been instrumental in harmonizing eight quality standards that apply to 60 percent of the products traded on the regional dairy market. These standards have been accepted by the private and public sectors in EAC and COMESA countries — what is lacking is a framework for the EAC and COMESA to mutually recognize and formally adopt each others' work. RATES is helping create a format by which each council of ministers can harmonize standards by accepting ("taking account of") the other's technical committee output.

In the future, dairy could serve as the test case for a "green pass" framework in the EAC and COMESA. Under this framework, partner states could recognize each others' dairy products as safe for trade, based on their ability to confidently share information about disease and disease management, and to trust in each others' inspection regimes for SPS control. The work of converting dairy quality standards to a green pass framework will require the expert attention of industry specialists — a natural future role for ESADA in expanding regional trade.

SUCCESS STORY
A Small Farm Makes a Huge Impact in Kenya

RATES / STEPHEN WALLS

Lucy Karuga, managing director of Eldoville Farm, displays one of her creations: a Kenyan Brie cheese. Lucy has built her operation slowly and steadily, increasingly acquiring technical knowledge to support the expansion of her product line. Her model of value chain strengthening is one she is increasingly called on to share, not just with fellow Kenyans, but with all of Africa. "I'm willing to work with technical advisors and donors to promote this idea of being small but having a big impact," she says. "I can help a lot of women that way."

Lucy Karuga remembers being a small girl in rural Kenya, having to carry heavy cans of milk from her home to deliver on her way to school each morning. Her parents' few milk cows provided an important source of supplemental cash for the family; indeed, milk sales financed Lucy's education. But at the time she thought only, "When I grow up, I will never do farm work again." Little did she know.

As a young woman, Lucy accompanied her husband to the United Nations in Geneva, where she studied French and became fascinated by the small, highly technological Swiss farms that produce a range of dairy products, especially yogurt and cheese. Upon the couple's return to Nairobi in the early 1980s, Lucy resolved to try her hand at a home-style dairy. Starting with a few acres and just one cow, and working in her kitchen, she began to produce a few liters of cream every day. A friend put her in touch with the chef of the Intercontinental Hotel in Nairobi, who immediately placed an order for delivery three times a week. "With that," says Lucy, "I knew I was on the right track."

By 1994, the product range and market for Lucy's Eldoville Farm — which takes its name from Kenya's Mount Eldoret and the French word for "town" — had grown so much that she needed to build a formal, commercial-level dairy. She got the technical support she needed from Kenyan sources and from DANIDA, the Danish development agency, which got her together with a Danish cheese master to develop that product line. An active ESADA member, Lucy has participated in a number of the association's training courses.

She has added fruit and vegetable processing for the hospitality industry to Eldoville's farm operations. Together, her product lines — dairy, vegetables, and fruit — generate 7 to 8 million Kenyan shillings per month, and support a workforce of 80.

Lucy — whose clients include Nairobi Airport Services, all of the city's five-star hotels, and the major supermarket chains — has been held up by the government of Kenya as the voice of experience in adding value to farm products. Her dairy line regularly takes top prizes at the ESADA cheese festivals. "It's hard work," she says, "you can't overestimate it. But I know our small farm makes an impact on Kenyan GDP. As they say, you don't have to be big to be *big*."

SOME PROMISING RESULTS

- Brookside Dairy, based in Nairobi, Kenya, has secured lucrative deals to supply more than $7.5 million in UHT milk products to COMESA and SADC countries. Brookside has also been expanding into Uganda and Tanzania, and milk is flowing from Kenya to these two countries. More than $3 million of dairy products were exported in 2006.
- The Sameer Group of Kenya, which operates businesses in East Africa, made a $15 million investment in Uganda's dairy industry by erecting a milk powder plant that was commissioned in January 2008. Sameer had already invested in Uganda by taking over the defunct Dairy Corporation Limited in August 2006.
- The GATES Foundation (through Heifer and TechnoServe) is investing more than $45 million in the regional dairy sector and will be funding installation of more than 150 cooling centers in East Africa in the next two years. This should greatly improve local storage capacity and increase the volume of raw milk available for processing.
- The International Fund for Agricultural Development is also funding 50 to 70 cooling centers in Kenya through a loan of $16 million to the government of Kenya for this investment.

RATES / STEPHEN WALLS

Zambia Dairy Processor's Association representatives mix fruit smoothies and other specialty concoctions to promote domestic milk consumption. Data show that as people's incomes rise above the poverty level in developing countries, and as populations become urbanized, consumption of meat and dairy products per capita goes up. Satisfying this demand has led to the so-called "livestock revolution" in China and India. ESADA has been instrumental in communicating the opportunities for import substitution that a strengthened dairy sector represents, as well as the health benefits of increased dairy consumption.

RATES / STEPHEN WALLS

Jane Goodall founded the Gombe Stream Research Center in 1967 to coordinate the study of the wild chimpanzee, which is one of the closest relatives of humans in the animal kingdom. The Jane Goodall Institute estimates that the wild chimpanzee population in Africa has dwindled from 2 million in 1900 to 150,000 today because of hunting and destruction of chimp habitat. The center is on the eastern shore of Lake Tanganyika, 15 km north of the town of Kigoma, where RATES partnered with the JGI to bring chimp-friendly coffee farming practices to the community.

CHAPTER SIX

CROSS-CUTTING ISSUES: GENDER AND THE ENVIRONMENT

Cross-cutting issues for USAID projects in Africa include gender, environmental sustainability, corruption, and vulnerable groups. Of these, RATES has had the most impact on gender and environmental sustainability.

Gender. RATES was always aware of the important role that women play as farmers, agricultural workers, processors, and traders, and made every effort to ensure they benefitted from interventions and were given an opportunity to achieve management and leadership roles in RATES-supported organizations. Women achieved important management positions under RATES, including executive director of the EAGC (Anne Mbaabu, see page 40) and EAFCA technical and program management. Women were also a significant presence in RATES' training events, comprising on average 20 percent of attendees.

Environmental sustainability. RATES promoted best practices that encourage producers to adopt sustainable agricultural approaches. EAFCA, for example, teamed with the Common Code for the Coffee Community, which links producers, trade and industry, and civil society to improve social, environmental, and economic conditions for people making their living from coffee. Corporate social responsibility (CSR) — whereby organizations take responsibility for the impact of their activities on customers, suppliers, employees, shareholders, communities, and other stakeholders — has come to Africa, and RATES has encouraged regional trade associations to develop CSR statements as part of their strategic business plans. Notably, RATES helped Green Mountain meet its CSR goals by teaming it with the Jane Goodall Institute to re-forest chimpanzee habitats in Tanzania.

SUCCESS STORY
Women Lead the Way to Structured Trading in Malawi

RATES

Grain markets in East and Southern Africa tend to be highly politicized: government approaches and policies toward imports and exports can change suddenly and unpredictably. When there is uncertainty about government actions, traders will not enter into deals to supply maize across borders. In Malawi, the government has shown some confidence in the private sector to regulate grain supplies, specifically in the operations of the Malawi Grain Traders and Processors Association (members of the board of directors are shown here). It is the beginning of a private sector solution for purchasing, storing, transporting, and delivering grain.

RATES' 2003 maize value chain assessment in Malawi revealed that even though the government had ended its monopoly in the grain trade, it still competed heavily with the private sector to purchase maize and continued to ban maize exports in times of perceived scarcity. The government's motive was to mitigate the cycle of boom and bust to which Malawi's farmers are particularly susceptible. Following poor harvests in 2004 and 2005, government grain purchases — along with provisions of maize by donors trying to shore-up food security — distorted domestic supply and demand. This hurt farmers, who got low prices due to a glut on the market, and traders, who found it difficult to compete with donors supplying maize.

In the aftermath, RATES called a general meeting of all grain stakeholders: traders, millers and processors, donors, and Malawi's ministry of agriculture. All saw the need to rationalize the approach to a strategic and political crop and called for a unified private sector position on how to proceed.

Within a few months, the major grain traders and processors — all women — had organized themselves into the Malawi Grain Traders and Processors Association. Impressed with their initiative and drive, RATES gave them start-up funding for a secretariat to manage full-time tracking and sourcing of maize tenders. The European Union also took an interest in the GTPA, helping it to produce a strategic business plan. In the 2007-2008 season, following a bumper year, the government of Malawi gave GTPA a vote of confidence: Malawi agreed to sell 400,000 mt of maize to Zimbabwe — to be sourced only from GTPA members. GTPA members sourced and sold more than $60 million in maize, a remarkable accomplishment.

In its first two years, the GTPA has made significant progress. It has positioned itself as the main voice of grain traders and processors in Malawi. Membership has grown from an initial 15 to 151, many of whom are doing business together. The association is in the forefront of structured trade in Malawi, working to establish predictable grades and standards, rules of trading, and market information systems. In the next two years, the GTPA will work more closely with farmers on post-harvest handling and storage, and to help them access credit through a warehouse receipt system.

SUCCESS STORY
RATES Contributes to Chimpanzee Preservation Efforts in Tanzania

RATES / STEPHEN WALLS

Jane Goodall in discussion with Chris von Zastrow of RATES at an EAFCA event in Tanzania.

"Our effort to involve local citizens in restoring the forests and practicing sustainable agriculture is the most important work we can do to ensure a future for the Gombe chimpanzees and the people of Africa."

— Jane Goodall, www.janegoodall.org

In a coup for chimpanzees and corporate social responsibility, RATES has put Green Mountain Coffee Roasters together with the Jane Goodall Institute in the Kigoma district of Tanzania: the result is Gombe Reserve blend coffee*, available for purchase from the Green Mountain Web store (www.greenmountaincoffee.com). Kigoma, an impoverished area near the 32 km Gombe Stream National Park, falls under the purview of JGI's TACARE project (Lake Tanganyika Catchment Reforestation and Education, "Take-Care"). Since 1994, TACARE has worked to give local communities the tools they need to grow their economies and conserve their environment, which is home to critically endangered wild chimpanzees. A major effort under TACARE is to motivate coffee farmers in strategically located villages to practice chimpanzee-friendly coffee growing — by planting shade trees — so dwindling chimp populations can connect through reforested corridors.

RATES partnered with TACARE to train 2,700 small-scale coffee farmers in Kigoma's Kalinzi Cooperative in techniques to restore soil fertility and intercrop coffee with shade trees and food crops like bananas and beans. The shade trees are good for the coffee and for chimpanzees (who, according to Dr. Goodall, hate coffee and leave the trees alone). But RATES-sponsored training did not stop with best agronomic practices: five coffee washing stations were installed to allow groups within the cooperative to control post-harvest quality through sorting, fermenting, drying, and storage. The Kalinzi coffee is then cupped at a specialty coffee laboratory in Kigoma, and the beans are certified as "Good for All" by the JGI, which then helps the farmers with links to specialty coffee roasters and buyers.

With RATES support for enhanced quality, JGI has been able to connect Kigoma coffee growers with Green Mountain (and with Starbucks and Whole Foods as well) in a relationship that will boost their income and give them an incentive to set aside land for chimpanzees. In turn, Green Mountain has been helped to reach its corporate commitment to "conduct business in a manner that balances economic goals with environmental and social impacts on local and global communities." Green Mountain also reports that the share of Fair Trade-certified and organic coffee grew 69 percent in FY 2006 — a level that is sure to grow.

* "WATERBURY, Vt. — Kenneth Davids, editor of the independent Coffee Review, has awarded an outstanding and rare score of 90 to "Gombe Reserve—In Cooperation with the Jane Goodall Institute," a new coffee produced by Green Mountain Coffee Roasters, Inc.." Bnet Business Network, June 11, 2007

RATES / STEPHEN WALLS

Mount Kilimanjaro in Tanzania is one of many natural wonders in East Africa's Great Rift Valley, which stretches over 5,000 miles from Syria to Mozambique. The Rift Valley is volcanically and seismically active; in addition to Kilimanjaro, shifting tectonic plates have produced Mount Kenya, the world's second largest lake (Lake Victoria), and Lake Tanganyika. Farmers throughout the rift's two forks, east and west, struggle under similar constraints: lack of infrastructure, finance, access to markets, and improved technology know-how. RATES helped smallholder farmers reach markets through representative trade associations.

CHAPTER SEVEN

BEST PRACTICES AND LESSONS LEARNED

The RATES program has had remarkable success in strengthening private sector participation in removing barriers to regional trade and expanding its volume and value. At no time did RATES take center stage: it supported trade flow leaders in achieving their own vision of a free and structured trading system. There are several lessons to share from RATES' six years of operation.

1. Narrow the commodity focus. A portfolio of only four commodities seems like a narrow enough focus. But RATES found it was better to define them even further:

- Instead of all coffee, RATES chose to focus on specialty coffees, which constitute the top 10 percent of high-quality Arabica.
- In the cotton/textile/apparel value chain, RATES started with lint (the ginning sector — not seed cotton) and moved through the chain to include yarn and fabric (spinning and weaving sectors).
- For maize, the focus remained on whole grain traded across borders (not domestic markets and not processed, or milled, maize).
- For dairy, the target products were those that were most likely to be sold regionally or extra-regionally — usually processed products (UHT, butter, yogurt, cheese).

2. Narrow the geographic focus. The COMESA/EAC region consists of 19 countries. However, using trade data, RATES identified the six to 10 countries that handled the bulk of trade in any one commodity. In most cases, at least 80 percent of trade in COMESA in any of the four RATES commodities is handled by only six countries. These became RATES' target countries.

3. Establish a starting point. It is critical to establish a baseline at the start of an initiative, even if that requires analyzing historic and current data to arrive at a reference point against which to report gains (or losses) for each link in the target value chain.

4. Analyze value chains. RATES assessed value chains in each commodity and each target country to identify key problems the program could address. These key problems — limited market intelligence, lack of inter-regional commercial links, policy constraints — became the focus areas for results in program work plans.

5. Identify key private and public sector allies. In every target country RATES identified key stakeholders capable and willing to participate and be proactive in proposed interventions. Identifying these partners and creating alliances was essential for program success. RATES' early focus on issues of most importance to its allies created respect and confidence that the RATES' game

RATES / STEPHEN WALLS

Women in East Africa, like this employee of Nairobi-based Brown's Dairy, are overwhelmingly employed in the agriculture sector. In an era of globalization and market liberalization, the danger is that consumers who are increasingly better off and urban will prefer foreign to domestic products. RATES' focus on dairy is helping regional milk processors understand and meet the demand for higher quality, better packaging, and more varied goods — made locally or in neighboring countries.

RATES / STEPHEN WALLS

RATES found success by focusing its support on specific segments of the commodity value chains with which it worked. For cotton, this meant the project directed assistance to the ginning, spinning, and weaving sectors in eight countries.

plan was sincere and results-oriented.

6. Include regional partners. RATES made an early effort to include bilateral missions and their respective programs in the planning process and implementation. Some of RATES' early successes were due to productive relationships with ongoing projects: Kenya Maize Development Program, Support for Agriculturally Linked Enterprises in Malawi, Agricultural Productivity Enhancement Program and Strengthening the Competitiveness of Private Enterprise in Uganda, and Zambia Agribusiness Technical Assistance Center. This guiding principle also included non-USAID programs; every effort was made to work with partners from the United Kingdom, the European Union, and the World Bank.

RATES also took care to generate strong working relationships with the African regional players who were critical to success. The COMESA and EAC secretariats have been full implementing partners from the start of the project, and many of RATES' successful policy initiatives were jointly implemented.

7. Add value to national programs. Regional programs are challenged to identify appropriate programs and services that are best delivered from a multinational platform. RATES continually asked: "What services can RATES provide that nationally-based projects can't?" Regional trade intelligence through RATIN was one example; another was mobilizing regional and international trade buyers and sellers through a conference/trade show format. This approach meets demand for missing services and avoids duplication and overlap.

8. Weigh the pros and cons of an institutional approach. RATES partnered with regional trade associations representing each commodity sector: EAFCA for coffee, ESADA for dairy, ACTIF for cotton/textiles, and EAGC for grain. When considering such a partnership:

- Know that not all commodities require a separate regional (or national) association.
- Be prepared for a long-term commitment — sustainability is always an issue.
- Associations are often asked to help USAID and other donors carry out an agenda that is not always cost-effective; be prepared to engage.
- Full value-chain membership seems to work better than single-sector.
- Commodity industry stakeholders must demonstrate their commitment through active participation and investment.
- Take time — perhaps a year — to "process" the start-up of a new association. Taking shortcuts to gain a quick result usually backfires later.
- Regional associations (as well as projects) are expensive to run; national trade and business associations tend to be more cost effective. Always analyze strength from the national viewpoint before considering a regional effort — the regional institution is only as strong as its membership base.

There are considerable benefits and advantages from working in partnership with a regional trade organization:

- Association trade directories can easily access and mobilize the industry region-wide.
- Information systems such as RATIN and www.cottonafrica.com can be effectively managed by associations in the long term.
- Inter-regional supply chains can be effectively linked through Internet systems and industry forums.
- Well-established and sustainable associations (EAFCA) can continue delivering essential services after short-term projects (RATES) have closed.
- After project closure, associations can be direct recipients of donor assistance, and with

more mature institutions, could be capable of directly implementing programs on contract.

9. Fortify public and private sector partnerships. ESADA, EAFCA, ACTIF, and EAGC all have working memoranda of understanding with COMESA — and a few with EAC — aimed at resolving barriers to trade. This method has been successful in several policy initiatives, including harmonization of standards, SPS protocols, and simplification of trade and customs systems. All regional associations are associated with international trade associations as well, and have formed alliances with key international private sector players.

RATES / BARRY FISHER

"Brand Africa," in this case South Africa, on display at the MAGIC show. The MAGIC Marketplace — a premier international fashion industry trade event held annually in February and August — started in 1948 as the Men's Apparel Guild in California. It went international in 1979 and now hosts global buyers and sellers of men's, women's, and children's apparel; footwear; accessories; and sourcing resources. ACTIF members who exhibit here have access to the largest concentration of apparel buying power in the United States.


RATES / STEPHEN WALLS


RATES / STEPHEN WALLS


RATES / STEPHEN WALLS

TOP: Chungu Mwila, director of investment promotion and private sector development at COMESA, greets the late president of Zambia, Levy Mwanawasa, at an EAFCA coffee conference.

CENTER: Jas Bedi, chairman of the board of ACTIF, shakes hands with COMESA Secretary General Erastus Mwencha at the ACTIF-COMESA memorandum of understanding signing ceremony.

BOTTOM: At Brookside Dairy in Kenya, milk products are packaged in a variety of ways for different market segments. Lower-income buyers prefer smaller packages.

END NOTE

"When RATES was being designed, the main goal was to come up with a list of commodities that would most quickly get us to an increase of 30 percent in the volume and value of regional agricultural trade. Maize was an obvious choice; the dairy industry was not doing well and needed help; and for cash crops, the coffee and the cotton/textile/garment subsectors had the most potential and promise.

"But COMESA also wanted to use RATES to reinforce its own organizational mission, that is, to ally with the private sector as a COMESA strategic and leading partner in developing regional trade and investment. We had been grappling with a way to integrate the private sector when RATES introduced the business association approach to expanding trade. Whereas before, our private sector involvement was at the framework level, RATES took our participation to the commodity level — a quite significant evolution. We think that the four RATES associations we work with — EAFCA, ACTIF, EAGC, and ESADA — can be the models for strengthening other commodity sectors.

"EAFCA has been particularly successful. It has established an African brand in the coffee export market, and has capitalized on that to the point where we can say EAFCA is sustainable in the medium and long terms. The EAGC has a successful program — Maize without Borders — and is functioning well, but will require additional support going forward. ESADA has many more issues to deal with; the quality standards in dairy are a tougher challenge.

"ACTIF has become a continental voice for the African cotton grower/textiler. That's because for growers/manufacturers in COMESA countries to survive, we must take a broad view, incorporating southern and western Africa as well as east and central. That's not to say countries in the EAC, COMESA, SADC, and ECOWAS don't want the origin of their cotton to be noted. But ACTIF, through its forums and meetings, helps to consolidate the achievements of all African trading blocs.

"A very important strong point of RATES was that it embedded a commercial advisor in the COMESA agriculture program, who became an integral part of COMESA deliberations. At each stage of policymaking — from the Committee on Agriculture, to the ministers of agriculture, and finally the Council of Ministers — he could advocate the private sector position. Taking Maize without Borders as an example, RATES was able to show at every stage that it not only fit the Free Trade Area initiative, but showed that free trade could work. It showed that food security is better addressed at the regional level, letting deficits in one country be met by surpluses in another. It made the argument against banning exports and protectionist national tendencies.

"RATES could not address all commodities and all issues. But it has shown how to draw in the private sector into partnership with the public sector, even when perspectives are very different. RATES has been our reference point for showing success with the private sector: we let the associations champion commodity trade, and we try to facilitate them. We are asking if we can do this for other staple foods like banana and cassava. There is an alliance for commodity trade being formulated in East and Southern Africa. We will borrow from the success of RATES: providing a nucleus for producers, traders to link to global markets where there is demand.

"And there is something else RATES can point to with pride: it was content to take the back stage and let the institutions and associations run their affairs. If something went wrong, RATES didn't take over. RATES avoided creating those pockets of friction and conflict when you appear to be the one handing out the goodies. This is one of the traditional failings of donor projects: expats have very good, very important ideas, but without close participation their program fails. Because of the trust built over the years, RATES and the associations have established rapport."

Chunga Mwila, Director, Investment Promotion and Private Sector Development, COMESA

DVD-ROM INDEX

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