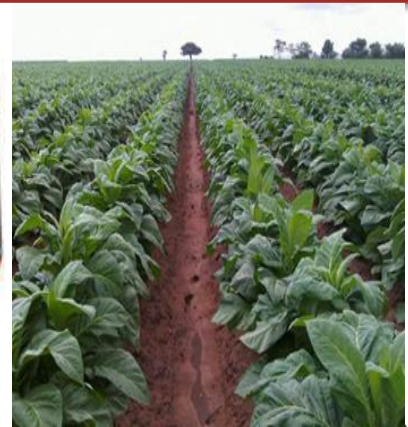


2nd COMESA AGRO-INDUSTRY DIALOGUE

Promoting Sustainable Agro Industrial Supply chains in COMESA



*17th -18th May 2017
Nairobi, Kenya*

1. Introduction

1.a) Background

Agriculture remains a key and strategic sector for livelihood support, income generation and export revenue. Furthermore, it has strong linkage and spill-over effects with manufacturing, tourism and other productive sectors in the economy and can become a greater contributor to regional integration. The growing population in Africa translates into a higher demand for food and an opportunity for the growth of the agriculture sector. Nonetheless, the sector has generally been underperforming in most COMESA Member states, with its contribution to GDP and Trade general on the decrease.

Agriculture is an important sector in the COMESA region with over 60 percent of the population depending on the sector for their livelihoods and employment. The sector's contribution to employment ranges from a low of 5 percent of the economically active in Libya to a high of over 90 percent in Rwanda. This notwithstanding, agriculture potential in the COMESA region remains under-exploited due to less mechanized production, infrastructure challenges and dependency on rain-fed agriculture. This negatively affects the economic significance of agriculture, leading to food insecurity and slow development of the sector in the region.

According to the COMESA Agriculture Report 2015, generally agriculture in the region is characterized by low agricultural productivity whereby yields of most crops in the member countries are below world averages. The crops on which the majority of the population in COMESA depends for food

and incomes have very low yields e.g. maize was only 35% of the world average in 2015. Further, per capita production has declined in COMESA over the last 30 years for most crops, except soybeans, potatoes, tea and wheat, yet these are not the most important crops in terms of providing food or cash income for most people in the region. Notably, the per capita production of key staples such as cassava, banana, and yams declined with the same scenario being experienced for key cash crops including tobacco and coffee.

Regional and international trade is increasingly become structured along supply and value chains. Even for the agriculture sector, competitiveness demands addressing and implementing a broad range of strategies that tackle barriers to integration and support the participation of small scale producers and SMEs in agro- industry supply chains. The 11th COMESA Business Forum Declaration 2016, highlighted that the active participation of SMEs and small scale producers in agro supply chains is essential for the development of robust and competitive agro-industries that can spur economic diversification, sustainable development and the creation of jobs and the growth of intra-regional trade.

A myriad of challenges exist in the agriculture sector undermining the efforts towards competitive and robust agriculture production and agro –industrial development. Key among them is:

- **Regulatory and policy frameworks;** poor policies (export bans, import

duties, subsidies, price and inflation regulation) and weak institution hindering market access and demand driven agricultural development and limited access to land.

- **Market Access;** poor market access which is mainly caused by lack of market information, poor infrastructure, tariff and non-tariff barriers (NTBs), SPS barriers, labeling and traceability requirements. This results especially to exclusion of small farmers from formal markets.
- **Infrastructure issues;** underdeveloped infrastructure which

includes limited electricity supply, poor storage facilities and road networks as well as lack of access to water and irrigation technologies. Poor road networks in particular tend to increase the cost of doing business while the poor storage facilities result in post-harvest losses.

- **Limited innovation and extension services;** which affect agricultural productivity throughout the value chain. There is a lack of well-trained scientists but in addition diffusion and adoption of technology remains very low.

1.b) Horticulture Sub-sector

Horticulture presents great potential for trade in COMESA region if fully exploited. The sector mainly includes fresh vegetables and fruits and is considered to have low volume/high value as opposed to high volume/low value agricultural commodities such as maize.

Among the top exporters of horticultural products in COMESA are Egypt (46%), Ethiopia (36%) and Kenya (11%), while the rest of the countries share small proportion. In terms of fruits, Egypt is the major exporter accounting for 82%, of the amount exported by COMESA with Kenya accounting for 9%. Exports of horticultural products rose by 13% from 2012 to 2014. Imports of horticultural products rose by 68% from 2010 to 2014. A huge market for horticultural products within COMESA exists.

The horticulture sector is at the centre of supply chain linkages with other sectors in the economy like the tourism sector,

manufacturing and wholesale and retail industries. For most of the COMESA countries, production is centered along small scale producers and SMEs. The CBC Local Sourcing for Partnerships project was initiated targeting the Small Growth Enterprises within the hospitality and horticulture sector, with the aim of building their technical capacity on

quality standards and promote business linkages with the Hotel industries to enable the agro food suppliers' participation in the supply chains. This is an example of strategies that can promote the development of the horticulture sector and effective integration of SMEs, agro food producers and suppliers into a sustainable supply chain.

Key Challenges in the sub-sector

- High cost of transportation – For regional exports, the horticultural products can only be transported by air freight due to their perishable nature. For inland transportation, producers and suppliers would still need refrigerated trucks.
- Failure to meet all the Sanitary and Phyto Sanitary (SPS) measures by the regional and international markets coupled with poor farming methods that lead to products of less quality and standards.
- Market Access. With the growth of Afro centered retailers one would expect increase in local sourcing, this has not been so as most suppliers lack the knowledge or capacity to supply into these markets.
- Investment in alternative sources of energy so as to mitigate the shortage of electricity as a result of low hydro power generation.
- Lack of reliable data on levels of production make the development of strategies for commodity based supply chain quite difficult.

1.c) Dairy and Dairy Products Sub-sector

In COMESA the dairy sector is crucial for rural development, poverty reduction and food and nutrition security, as East Africa captures approximately 70% of the dairy production in Africa. In terms of milk production the sub-sector is one of the fastest growing agricultural sub-sectors. It has generated significant economic returns and employment opportunities along the dairy value chains. According to the European Centre for Development Policy Management

Briefing Note N0. 78, the demand and supply of dairy products is raising with the Eastern Africa countries leading in consumption of dairy products. On the supply side, the production of dairy products is increasing but trends differ among countries in the region.

Dairy Production in Eastern Africa in 2011

| Country | Milk (million t) 2011 | Milk (% growth rate 2000-2011) | Butter (1000 t) | Cheese (1000t) |
|-----------------|-----------------------|--------------------------------|-----------------|----------------|
| Ethiopia | 4.4 | 14.2 | 17.6 | 5.8 |
| Kenya | 4.3 | 5.5 | 14.7 | 0.3 |
| Rwanda | 0.2 | 5.3 | 0.7 | n/a |
| Tanzania | 1.8 | 7.8 | 31.5 | 13.0 |
| Uganda | 1.2 | 8.0 | n/a | n/a |

Source: ECDPM Note No. 78

Nonetheless, the sector remains underexploited as it faces many production, marketing and trade constraints that hinder its development. The sector is plagued by low dairy farm productivity and inadequate milk quality stemming from various constraints including technological, capacity, organizational and policy restrictions.

In terms of trade dynamics dairy production in the region essentially remains a domestic, or even localized, business. Very low percentage of the raw milk supply, depending on the country and sources, is marketed and distributed through formal channels, whereas less than one per cent of dairy products are exporters within or outside the region. To a large extent, this is explained by the fact that milk and dairy products are difficult to trade due to their perishability, tropical temperatures that exacerbate the perishability issue and also to the relatively high costs of trading across borders in the region.

In terms of the marketing structures, about 90% of the milk produced by smallholder milk producers sold through formal or informal channels, whereas the remaining 10% is retained for the own consumption of households and for feeding calves. The collection and bulking of raw milk from farmers is the first step in the marketing chain. Milk channeled onto the market is delivered through a diverse range of actors in the informal and formal chains, including

collectors, transporters, and traders operating on the informal market, and collection agents, transporters or employees operating on behalf of the processing companies. Milk collection centres, also called “milk hubs”, facilitate this step. The cooperative is the most common structure for milk marketing. It is within such a background that the development of sustainable supply chains in the dairy sector is essential for boosting the capacity of small holder producers and their participation in trade and regional integration.

Key Challenges

- High milk production and collection costs.
- Inadequate quality of raw milk which limits the volumes of processed products that processors can supply, especially for value-added products such as milk powder, sour milk, cheese and yoghurt.
- The loss of milk due to spoilage is also cited as a major risk for all stakeholders in the dairy supply chain, with impacts on income loss, supply disruptions, the lack of broad-based use of modern farm technologies/practices and improved breeds explain a great deal of the productivity gap.
- Throughout most of the region, fodder availability is inadequate and prices are too high for smallholder dairy farmers to access.

1. d) Tobacco Sub-sector

Tobacco production and manufacturing represents an important economic activity in a number of COMESA member states; including in Malawi, Zimbabwe, Zambia,

Egypt, Uganda, Kenya, Rwanda, D.R. Congo and Madagascar. In most tobacco countries, the industry is ranked amongst the top ten revenue and foreign exchange earners, with

estimates suggesting that more than 18 million people are reliant on the tobacco sector for employment or household income in the region. The tax revenues generated by the tobacco value chain were valued at \$3.79bn during 2011. The exports of tobacco and related products totaled \$1.4 9bn in 2011 compared to imports of only \$622m.

Sustainable production and sustainable supply chain management are some of the key elements necessary to support the development and growth of the sector. This includes an enabling and balanced regulatory framework in terms of taxation, contract farming and other regulatory issues. Furthermore; creating warehousing networks, creation of small local processing units to add value is also essential.

1. e) Cross Cutting - Standards and Quality management issues

Standards and quality management issues lie at the center of trade and regional integration; more so when dealing with agriculture and food related products. Standards and quality assurance issues have become a decisive factor in gaining market access at both local and international markets, particularly, with the growth of multinational companies. For the agriculture sector- agro food producers meeting HACCP certification for instance is a pre-requisite for accessing markets in large retail companies or regional supply chains. Meeting national, regional and international standards will be necessary to enhance COMESA's competitiveness in local and global markets. As such it can become an opportunity or hindrance to the development of sustainable agro-industries within the region. The prevalence of SMEs in the region make accelerates the margin of non-

Key Challenges

- Absence of Policy and regulatory frameworks that support sustainable agriculture production and marketing.
- Disconnect between international policy proposals and socioeconomic realities, regional & national strategies/laws on tobacco production and marketing.
- Lack of evidence and science based regulation that takes into consideration both health and trade obligations of the Member States
- Lack of proper consultative mechanisms involving all stakeholders with fair representation and participation of affected sectors.

conformity to standards due to issues like cost of compliance, awareness and others. This is further exacerbated by the lack of and in affordable standards infrastructure in the region.

Key Challenges

- Cost of compliance with certification schemes, especially international schemes.
- Awareness. Limited knowledge and awareness on standards and quality management requirements and certifications.
- Limited accredited national certification and testing facilities- to provide alternative testing.

2nd COMESA Agro Industry Business Dialogue

The COMESA Business Council in partnership with the Africa Regional Standards Organisation (ARSO) will be convening the 2nd Agro Industry Dialogue from the 17TH -18TH of May 2017. The Focus of the Dialogue is to engage stakeholders in the selected sectors – horticulture, dairy and tobacco to come up with policy recommendations and strategies that support the development of sustainable agro industry supply chain networks in the region. The recommendations shall be streamlined into an advocacy position for the Agro Industry Work Group which shall be used for advocacy at various COMESA policy organs platform including the COMESA Trade and Customs Committee and Council of Ministers.

a) Objectives

- Engage and provide a platform for dialogue amongst the stakeholders in each of the selected commodity supply chains.
- Share best practices and develop strategies for the development of sustainable agro industry value chains within the COMESA region.
- Establish the and strengthen sub sectoral groups within the CBC Agro Industry Work group as part of the strategy for inclusive participation of the private sector with the CBC agendas

b) Venue

- Nairobi, Kenya

c) Dates

- MAY 17th -18th , 2017

d) Participants

- Agro Industry companies,
- Horticulture processing and producer companies
- Tobacco producers
- Dairy companies
- Corporates and SMEs within the agriculture sector,
- Research and extension services providers,
- National and regional standard setting bodies,
- Public sector responsible for Trade
- Other institutions supporting agriculture- FAO, ECDPM, etc
- Public Sector responsible for Agriculture, and specific commodities

2. How to attend

To participate in this meeting, contact CBC. Please note the meeting offers a limited number of seats- on a first come, first serve basis. Registration is free. Kindly submit your name and business profile to – kmadzivanyika@comesa.int , or echingoma@comesa.int , or dmataa@comesa.int and info@comesabusinesscouncil.org

