



**Lessons from EC Support to Production and Trade Adjustments  
under Existing National Programme Aid Activities in Kenya,  
Uganda and Tanzania**

*Paper compiled<sup>1</sup> for the CTA-ECDPM dialogue meeting on  
'Challenges of changing agricultural markets in the context of ACP-  
EU trade: Identifying an Aid for Trade agenda for the agricultural  
sector'*

-  
*Brussels, 14-15 April 2008*

*Draft version – For restricted use*

*April 2008*

The opinions expressed in the text are those of the authors, and do not necessarily reflect the views of CTA.

---

<sup>1</sup> *This briefing is extracted from a wider Nordic Africa Institute commissioned study entitled "Building on the EPA in East Africa: What Basis Exists in Current EC Co-operation Programmes in Kenya, Uganda and Tanzania for Getting to Grips with EPA Related Adjustment Challenges?"*

## Introduction

*This briefing is extracted from a wider Nordic Africa Institute commissioned study entitled “Building on the EPA in East Africa: What Basis Exists in Current EC Co-operation Programmes in Kenya, Uganda and Tanzania for Getting to Grips with EPA Related Adjustment Challenges?” This broader report seeks to identify and review existing nationally programmed development cooperation activities which could provide a basis for programmes of EPA related adjustment support in Kenya, Uganda and Tanzania. This briefing seeks to extract the main lessons in the sphere of production and trade adjustment identified in the larger first phase desk top analysis which has been undertaken to date.*

## Recognising the Need for Adjustment Support

The first lesson which can be drawn is the obvious need for such support. This need for adjustment support in the face of trade induced changes has been implicitly recognised by the EC through the establishment of the “Multi-Annual Indicative Programme for the Accompanying Measures for Sugar Protocol Countries”. This programme takes further the previous implicit recognition of the need for such support embodied in the earlier banana and rum programmes, by trying to develop a comprehensive multi-annual stakeholder led response strategy. This is best illustrated by the lead role given to the Kenyan Sugar Board and the Tanzanian Sugar Board in the implementation of the EC financed component of their respective national adaptation strategies. This suggests recognition of the need, when responding to trade induced economic adjustment challenges, to **deploy assistance in close association with those most directly involved in the affected industries**. This can only be seen as a positive development.

However the current approach needs to be substantially elaborated to give representative and accountable stakeholder bodies a much greater role in **priority setting, programme design and programme implementation**<sup>2</sup> than is apparent in the Kenyan and Tanzanian sugar sectors. This will be necessary if the full potential of current initiatives are to be realized in effectively getting to grips with production adjustment challenges arising from changed market conditions.

## Establishing Modalities for Effective Aid Delivery

The second area where lessons can be learnt is in regard to the appropriate modalities for the delivery of production and trade adjustment support. This is an important issue, given the growing EC preference for budget support. Budget support is a rather inappropriate instrument for extending support to what largely needs to be a private sector led process of trade and production adjustment.

In the case of Kenya, across a number of areas the EC has developed a **Trust Fund** approach to extending support to economic adjustment processes. This approach could be of particular relevance in meeting EPA related adjustment challenges. This ranges from the establishment of a €4.5 **“Micro-Enterprise Support Programme Trust Fund”**<sup>3</sup> to the **“Tourism Trust Fund”**, through which support was extended to the rehabilitation

---

<sup>2</sup> Within, of course, mutually agreed parameters set out at the beginning of the programme, determined in the light of the challenges faced.

<sup>3</sup> Which used interest and capital repayments under the earlier Micro-Enterprises Support Programme.

and development of the tourism sector following the disastrous consequences of the April 2003 travel advisories.

The experience of the “**Tourism Trust Fund**” appears to carry some particularly important lessons. While there were difficulties with this programme in its opening phases, over an 18 month period its performance was turned around, with the appointment of a new CEO and the transfer of the Chairpersonship of the Board of Trustees to the private sector (with the Board largely consisting of private sector representatives). The experience of this programme would appear to highlight the importance of ensuring **private sector leadership of Trust Funds**, within a framework of professional management and **full accountability to all stakeholders**.

Such a Trust Fund approach would however appear to be relevant across a multiplicity of areas of production adjustment needs. It could provide a vehicle for support to genuine private sector led production adjustment processes, designed to attain clearly articulated public policy goals linked to poverty eradication objectives, through enhancing farm incomes and generating greater formal sector employment opportunities across a wide range of product chains, the markets for which will be impacted by the implementation of an EPA.

The Trust Fund approach would also appear to be of relevance in addressing trade adjustment challenges. This would appear to be particularly relevant to meeting the **SPS and food safety compliance and verification** challenge. A strong case would appear to exist for the establishment with EDF funding of a **Food Safety Trust Fund** to provide financing for identified priority measures to bring national food safety and SPS compliance capacity up to EU standards and maintain it at these levels. Such a Trust Fund should:

- a) be professionally managed
- b) bring together all concerned stakeholders on the Board of Trustees;
- c) be private sector chaired and led;
- d) receive core EDF funding, but develop “own financing” mechanisms;
- e) actively seek funds from other funding agencies concerned with food safety issues (including EU member states bilateral programmes, particularly from countries with a strong commercial interest in priority sectors);
- f) provide a vehicle for the deployment of low cost loan financing for private sector investment in meeting food safety standards, with the interest rate “spread” being used as a source of own resource funding for food safety programmes.

Such Trust Funds should ideally be established at the national level, so as to respond to national realities, challenges and priorities faced in establishing effective food safety compliance and verification capacity. This would appear to be a particularly urgent priority in Tanzania and Uganda, although its importance in Kenya should equally not be under-estimated (although here existing capacities and initiatives are further advanced).

### **Strengthening Producer Organisations**

A third area where lessons can be learnt is in regard to the centrality in agriculture dependent economies of **strengthening producer organisations** in response to the challenges of trade liberalisation. The EU experience of deploying production and trade

adjustment support in sectors such as fruit and vegetable production (but also in other sectors), suggests that **strong, organised, producer organisations** are critical to successful production and trade adjustment, in a context of increasing global agricultural trade liberalisation and increasingly differentiated product markets. This is highly relevant in an EAC context, where **strengthening the hand of producers organisations** in realising the full commercial value of quality improvements through the prices they receive, is likely to take on growing significance under the impact of growing global trade liberalisation. Unfortunately, despite a long history of EC support to rural development under EC-ACP cooperation programmes, the effectiveness of EC assistance in this area varies considerably from country to country.

In Uganda a basis would appear to exist for the extension of such support under the National Agricultural Advisory Services Programme, where an extensive and growing programme of support to strengthening farmers organisations, improving productivity and enhancing marketing capacity is underway. However, in Tanzania it is far from clear under what existing programmes such a basis for extending support might exist. What is clear is that if an appropriate vehicle is not found for supporting the organisation of producers within the value chain so as to maximise the commercial benefits gained from quality improvements, then agricultural producers in East Africa are likely to find themselves marginalised from the benefits of any price improvements arising from expanding and increasingly differentiated global demand for coffee and other basic commodities.

### **Ensuring Effective Smallholder Engagement**

A fourth area in which lessons can be learnt arises from the experience of the preparations for the EPA negotiations. In the process of preparing for EPA negotiations various government/private sector bodies have been brought together to identify the key trade policy issues and challenges faced. These structures could usefully be extended either at the **sector** or **thematic** level, to provide **stakeholder led** and **accountable** structures for the deployment of production and trade adjustment support in response to challenges thrown up by the EPA process. This would range from meeting increasingly strict EU food safety standards on exports, to improving packaging, branding and marketing of products on regional markets in response to intensified competition from EU exports.

Already the EC has supported various initiatives which are linked to these new emerging priorities (most notably under the COLEACP PIP initiative and the East African component of the global ACP programme for promoting health standards for fisheries products). The question is: **can these existing initiatives be elaborated in ways which provide a solid basis for getting to grips with EPA related challenges?**

Clearly prospects for successfully getting to grips with EPA related challenges would be enhanced if existing bodies for policy dialogue created around the EPA negotiations (and in a Kenyan context the **National Thematic Working Groups**) could be consolidated (under **accountable private sector leadership**) and refocused on identifying and getting to grips with production and trade adjustment challenges. This could then provide the basis for the more extensive application of the Trust Fund approach to facilitate aid deployment in support of production and trade adjustments. An approach which also could make greater use of more innovative instruments for the

deployment of grant financed loans in support of specific restructuring programmes and initiatives.

In this context the experience of initiatives such as the KEPLOTRADE programme could be built upon. Through the KEPLOTRADE project the EC has sought to support the establishment of an effective basis for trade policy analysis and the identification of EPA related adjustment needs. However the experience of KEPLOTRADE to date suggests there is still considerable ground to be covered before trade policy analysis effectively feeds in to the elaboration of operational programmes at the sector level, in response to the challenges faced in the evolving trade relationship between the EAC and the EU.

The linkages between trade policy analysis and wider national policies (e.g. in a Kenyan context the **Economic Recovery Strategy** and the **Strategy for Revitalising Agriculture**) obviously needs to be more clearly articulated as do the links to the elaboration of operational programmes at the sector level. This issue will need to be urgently addressed if the basis established under the KEPLOTRADE programme is to be used to **elaborate effective policy responses** and coordinate the elaboration of appropriate **support instruments** designed to meet EPA and wider trade challenges. What is more similar such initiatives to the KEPLOTRADE initiative could usefully be launched in both Tanzania and Uganda perhaps on the basis of existing programme (for example, in Uganda under the Uganda Programme for Trade Opportunities and Policy).

However experience elsewhere suggests that responsibility for the design and implementation of operational programmes should reside with **sector based initiatives** which are **led by the private sector**, within the framework of the **Trust Fund approach**, rather than being the responsibility of a policy analysis agency such as that established under the KEPLOTRADE programme. The role of bodies such as KEPLOTRADE should be restricted to supporting the establishment of such initiatives in the early stages and coordinating lessons from across the various sector experiences.

### **The Role of Grant Financed Loan Instruments**

A fifth set of lessons arising from the EAC experience relates to the use of loan financing instruments in support of production adjustments. The experience in this regard varies greatly across EAC countries. In the case of Uganda, extensive use has been made of APEX and Global loans to make available funding for medium and small scale private sector development. In Tanzania in contrast while EIB funding priorities were defined as part of the Country Support Strategy, as the 2006 Joint Annual Report noted "**the EIB has not financed any new investment project in Tanzania under the 9<sup>th</sup> EDF<sup>4</sup>**". This would appear to raise questions about the appropriateness of EIB financial instruments to the economic development needs of Tanzania.

This in fact raises the wider question as to the use of grant financed loan facilities<sup>5</sup> in the context of the production adjustment challenges facing EAC countries in the context of the implementation of EPAs and the broader process of market and trade changes underway in Europe. While EIB funds can be provided in LDCs at rates of interest as low

---

<sup>4</sup> Tanzania Joint Annual Report for 2006: European Investment Bank

<sup>5</sup> It should be borne in mind that the EIB managed ACP Investment Facility draws largely on funds financed by grants from EU member states and not funds raised by the EIB borrowing on EU capital markets.

as 1%, the interest rates charged the end user' is normally based on the prevailing market rate, with in the case of Uganda the 'spread' between the cost to the final beneficiary and the nominal 1% interest rate charged being used to cover the exchange rate risk of the EIB. This appears a somewhat strange arrangement, since risk capital loans are financed from grants from EU member states. Surely, these grants when extended as loans could be more effectively used in support of more sustainable forms of trade and production adjustment support?

Grant financed loans could be deployed for on lending through a different vehicle, with the interest rate charged to the final user being adjusted accordingly to reduce the interest rate "spread" or the interest rate "spread" being used for more directly productive purposes (e.g. development of production to specified quality standards and to serve 'luxury purchase' markets or to defray SPS related costs). Indeed, the revenues generated by the interest rate "spread", if deployed within the context of a "Trust Fund" approach, could be used to generate own resources for the financing of the Trust's activities. There are already indications that in some Southern African countries the EC is contemplating such an initiative in the context of extending production adjustment support to smallholder sugar farmers<sup>6</sup>.

**In the context of EPA related adjustment needs this may represent a more rationale use of the "spread" between the nominal interest rates at which grant financed loans are made available under the Cotonou Agreement and the interest rates charged the final beneficiaries.**

Certainly there is a need to rethink the terms and conditions on which grant financed EIB managed loans are extended to ACP countries facing EPA related adjustment challenges. There is a strong case for extending such grant financed loans in ways which actively encourage a dynamic production response to the challenges posed by trade liberalization.

### **Rethinking the Design of Support Instruments**

A sixth area where lessons can be learned relates to rethinking the design of instruments of support. Here the EC has a rich experience in designing production and trade adjustment support instruments and programmes under axis 1 of its rural development programmes. Given the similarity of the challenges facing EU and ACP agricultural and food product producers in the era of agricultural trade liberalization, it can be argued that the instruments of support deployed in ACP countries should increasingly be based on those instruments of support used internally within the EU to support production adjustments in preparation for trade liberalization in the food and agricultural sector.

This puts Commissioner Fischer Boel's comments at the EuroMed meeting in Strassbourg in September 2006 in a different context, a context requiring a fundamental

---

<sup>6</sup> This initiative is being developed in Malawi and involves the Shire Valley Cane Growers Trust. The provision of loan financing in this innovative form is still under consideration by the EIB. However, if EIB funding is not forthcoming in this form, then it is likely that annual action plan funding under the EU's accompanying measures programme for sugar protocol countries will be made available in the form of a loan to provide an ongoing revenue stream to the Trust being established for the promotion of smallholder sugar sector development.

rethink of how assistance is deployed in support of necessary production and trade adjustments. This raises a fundamental policy issue namely: **under what conditions should public sector funding be provided to private sector led production and trade adjustment programmes, in order to achieve public policy goals?**

#### **Commissioner Fischer Boel's Offer to the Mediterranean Agricultural Exporters**

In September 2006 in a speech in Strasbourg on the EuroMed agreements Commissioner Fischer Boel highlighted the importance of extending support to Mediterranean exporters in meeting EU food safety standards and in helping them move into high quality agricultural production. She noted how **"we cannot build a sound future solely on the foundation of bulk production"**. She said she wished to **"see more funding from our Euro-Mediterranean policy channeled into building capacity for high quality production"** and support for **"effective marketing"** which **"needs to be on our to do list"**.

Given the process of preference erosion underway in EAC-EU trade relations this would appear to be an issue which also needs to be on the EC's **"to do list"** for future EC-EAC cooperation activities.

In the context of the finalization of the EPA negotiations, the implementation of economic partnership agreements, and the wider processes of EU policy change underway, this is a policy issue which needs to be urgently addressed, if EAC countries are to be effectively equipped to address the challenges and exploit the opportunities arising in the coming period.

#### **The Changing Trade Context and the Need for Marketing Support**

Under the impact of the implementation of EPAs, wider processes of change underway in the EU market and the profound changes pending in the nature of the EU's external trade regime for food and agricultural products, ACP exporters including those in the EAC will increasingly have to shift from **trading undifferentiated bulk commodities into European markets to the marketing of particular products into increasingly differentiated EU markets**. The need to make this transition in the face of the growing competitive challenge from advanced developing country agricultural exporters is widely recognized in the EU and forms a central consideration in the design of internal EU restructuring measures under axis 1 of the EU's rural development programmes. The need to make such a transition has even been explicitly recognized in the case of North African countries trade relationship with the EU<sup>7</sup>. Unfortunately despite the profound process of preference erosion which is underway within the ACP-EU trade relationship (including of course the EAC-EU trade relationship), there has been no recognition of the need for ACP country exporters to make a similar transition and the need for external support to successfully making this transition. This would appear to be a particularly important issue in countries like Kenya, where there is already experience, in certain

---

<sup>7</sup> See the speech of Agricultural Commissioner Fischer Boel at various Euro-Med conferences, most notably the September 2006 meeting in Strassbourg, see speech by Agricultural Commissioner Fischer Boel (SPPECH/06/548-28/09/2006)  
<http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/06/548&format=HTML&aged=0&language=EN&guiLanguage=en>

sectors, in making this transition (for example in the marketing of beans and cut flowers in the form of prepared, pre-packed and bar coded products shipped directly to the supermarket chains). This experience needs to be consolidated and the best practice generalised.

In extending assistance in getting to grips with **marketing challenges** experience has been gained in the tourism sector. In 2003 a dedicated marketing programme was established to re-brand Kenya as a tourist destination and reverse the decline in tourism revenues<sup>8</sup>. This constituted an important new dimension to EC support - namely **direct support for marketing in Europe**. This type of support - would appear to be increasingly relevant in the **trade in goods sector**, where changing market conditions in Europe across a range of sectors, will require East African exporters to get closer to the EU market and be more innovative in the design and marketing of products into increasingly fragmented and differentiated EU markets. Against this background the questions arise:

- Is there any comparison between the types of activities financed under the tourism programme and the marketing support needs which will arise in various trade in goods areas?
- Do the management structures set in place in the tourism programme hold any relevance for management structures required in enhanced marketing programmes for trade in goods in the product chains of greatest importance to Kenya?
- Does the Kenyan experience in tourism marketing provide a relevant model for similar support in trade in goods areas?

It is not clear to what extent EC programmes in Tanzania under the Agriculture Sector Development Programme and the Coffee Research and Technology Support Programme or in Uganda under the NAADS programme, offer a basis for getting to grips with the **marketing challenges** which will be faced (notably securing the full commercial value of quality improvements in coffee production). A careful review will be required before deciding whether to attempt to build on these programmes or start afresh (possibly via a regional initiative in the coffee sector).

---

<sup>8</sup> See the EU-Kenya Joint Annual Report 2005, Project Summary, Tourism Diversification and Sustainable Development Programme, for summary details.