



‘Aid for Trade strategies and Agriculture: Towards a SADC Agenda’



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1. Introduction

1.1 Background

While 75% of the world's poor continue to depend on agriculture, many governments lack clearly articulated operational policies to stimulate agricultural growth. Compounding this situation has been the reduction of aid flows to the agricultural sector to a fraction of what they were in the 1980s. Recently in response to high food prices awareness has increased of the need to focus on agriculture as a catalyst for direct poverty reduction, food security and development. With the commitments made to expanding aid for trade support and the 'CAADP compact' framework for expanding budget allocations to agricultural development, new opportunities for the development and restructuring of ACP agricultural sectors appear to be opening up. However this needs to be seen in the context of the globalisation of trade and investment flows which are creating both new challenges as well as new opportunities.

In the context of SADC-EU trade relations, agricultural commodities have traditionally played a key role. While agriculture remains essential to many SADC economies in terms of its contribution to GDP and employment, changing market conditions and preference erosion call for new strategies. Furthermore, new policy developments and the negotiation of bilateral trade agreements such as the Economic Partnership Agreements (EPAs) with the EU are throwing up new policy issues and trade adjustment challenges.

Depending on the country and product specific circumstances, responses to these challenges may include moving up the value chain, diversification within or outside the agricultural sector as well as developing new export markets. For all of this, well targeted government policies as well as donor support will be crucial. It is in this context that 'Aid for Trade' (AfT)¹ initiatives have emerged to assist Developing Countries in addressing supply-side constraints and adjusting their economies to the new market challenges. While AfT has been extensively discussed in recent years in multilateral fora², there have been very limited opportunities to look at how best it can support ACP countries in addressing the challenges arising from evolving market conditions and changing agricultural trade policies.

It is against this background that CTA and ECDPM launched a series of workshop (in Brussels in April 2008 and Belize in November 2008) aimed at supporting national and regional dialogue on agricultural trade strategies for food and agricultural sector development and exploring how aid for trade support can best contribute to this process.

¹ The IMF defines Aid for trade (AfT) as a subset of development assistance that is seen as promoting international trade and a number of international initiatives to promote trade-related development assistance. It comprises aid that finances trade-related technical assistance, trade-related infrastructure, and aid to develop productive capacity.

² AfT has been an important area of discussion with the Doha Development Agenda (DDA) with the set-up of an international task force and several regional meetings hold in 2007.

1.2 Lessons from the Brussels and Belize Workshops

A number of findings emerged from these two workshops:

- production and trade adjustments should be ‘market led’, with a clear identification of the markets to be served in the context of evolving consumer demand and expectations in ways which deliver commercial advantages to the concerned producers;
- production and trade adjustment strategies need to be largely private sector based, with the private sector’s role being clearly defined, including in the design and management of restructuring assistance programmes, which may need to include support to effective market information systems, marketing strategies and product innovation and development, so as to stimulate proactive responses;
- agriculture development and adjustment instruments need to be flexible, with dedicated financial instruments so as to avoid competition for development aid with public sector programmes;
- the role of governments needs to be redefined as that of a ‘facilitator’, within a robust structure for public/private sector dialogue aimed at getting the policy mix right
- the governments’ role needs to be clearly defined in regard to:
 - standard setting & compliance verification;
 - support to market information systems;
 - support to product innovation and development;
 - facilitating access to financing for adjustment process;
 - the provision of economic infrastructure;
- difficult policy choices have to be made: is agriculture and rural development policy primarily about providing social safety nets or investing in a sustainable long term future for agricultural and food sector enterprises?
- with particular problems faced in supporting adjustments by smallholder farmers, the establishment and consolidation of effective producer organisations is essential;
- potentially instruments for risk management could play an important role in insulating rural producers from the adverse effects of price fluctuations arising from both natural and market forces;
- there is a need to clearly define the respective roles of national and regional authorities.

These workshops also gave rise to a multiplicity of important policy questions:

- what legitimate role should public funding play in food and agriculture sector production and trade adjustment processes in ACP countries?
- on what basis should such ‘aid for trade’ assistance be judged: with reference to poverty eradication or poverty avoidance objectives or simply structural economic change objectives?
- is there a mis-match between donor programmes and ACP agri-food sector trade and production adjustment needs,?
- are ACP agri-food sector needs fully accommodated in current ‘aid for trade’ strategies?

- are new financing instruments and aid delivery mechanisms needed?
- what specific roles can individual donors play in: facilitating access to finance for adjustment; in developing effective market information systems; cost effectively meeting evolving SPS, food safety and quality standards; the development of economic infrastructure?
- what lessons could usefully be drawn from the EU's rural development experience under axis 1 which explicitly aims to promote 'quality' production, for differentiate, 'luxury purchase' components of the EU and global markets?

EU-SADC Agricultural Trade Relations

According to EC statistics, between 2004 and 2007 while the value SADC agriculture and food exports (including South Africa) to the EU grew 12.3%, EU exports of agricultural and food products to SADC countries grew 66.9%. While the value of Southern African agriculture and food exports varied up and down from year to year, the value of EU exports of agriculture and food products showed constant growth. While the growth in Southern African agriculture and food exports to the EU were spread evenly between ACP SADC countries and South Africa, the growth in EU exports to SADC countries was concentrated on the South African market, with growth in the value of EU exports to South Africa being approximately one third larger than growth in exports to ACP SADC countries.

The more rapid growth in EU agriculture and food product exports can be accounted for by two factors. Firstly, the more advanced stage of tariff elimination on imports from the EU by South Africa than neighbouring SADC countries, given the conclusion of the EU-South Africa TDCA in 1999 and the progressive reduction of tariffs between 2000 and 2007. Secondly, the stronger demand profile in South Africa for the value added, quality differentiated products, which the EU is increasingly exporting. It is noticeable that while for ACP-SADC countries the category of 'prepared foodstuffs, beverages and tobacco' accounted, on average, for slightly less than half of EU agriculture and food and drink product exports, in the case of South Africa this category accounted for just under two thirds of the value of EU agriculture, food and drink exports.

EU-SADC Agriculture, Food and Drink Trade

SADC Exports to the EU (€ '000)				% annual change		
	ACP SADC	SADC + South Africa	South Africa	ACP SADC	SADC + South Africa	South Africa
2004	3,464,082	1,628,558	1,835,524			
2005	3,535,861	1,686,320	1,849,533	+ 2.1%	+ 3.5%	+ 0.8%
2006	3,479,353	1,646,807	1,832,545	- 2.2%	- 2.3%	- 0.9%
2007	3,891,738	1,832,058	2,060,680	+ 11.9%	+ 11.2 %	+ 12.4%

EU Exports to the SADC (€ '000)				% annual change		
	ACP SADC	SADC + South Africa	South Africa	ACP SADC	SADC + South Africa	South Africa
2004	1,038,237	623,951	414,286			
2005	1,130,721	661,770	468,951	+ 8.9%	+ 6.1%	+ 13.2%
2006	1,523,275	915,111	608,164	+ 34.7%	+ 38.3%	+ 29.7%
2007	1,732,593	986,195	746,398	+ 13.7%	+ 7.8%	+ 22.7%

Many of these issues were revisited in the Namibia workshop from the perspective of the specific circumstances prevailing in the SADC region. Circumstances which vary considerably from country to country, and which gave rise to extensive and vigorous debates and discussions. This led to the elaboration of nuanced and often tentative conclusions which sought to take into account the very different starting points of SADC

agriculture and food sectors, their very different potential and the very different policy directions followed by individual governments.

Against the background of these previous workshop initiatives the aim of the joint SADC regional workshop was to support a regional dialogue to exchange experiences across Southern African countries on:

- the role of trade policy in rural and agricultural development, focusing on strategic policy directions that can support integrated agricultural transformation measures for improved rural incomes, food security and job creation;
- the role of 'aid for trade' in supporting food and agricultural sector adjustment and development;
- strategies for effectively supporting smallholder farmers within the agricultural adjustment and development process.

2. Policy debates in the SADC Region

This section outlines first some of the national debates on national agricultural trade policy, before reviewing briefly the state of regional discussions. It highlights the divergence of views in the region on basic agricultural trade policy issues. Against this background it explores the theoretical benefits of boosting regional agricultural trade in southern Africa and briefly touches on the possible role which 'aid for trade' could play.

2.1. *The National Policy Context*

The Namibian Permanent Secretary of Trade and Industry's opening address provided a national perspective on policy issues faced in getting to grips with the new trade challenges facing Southern Africa. He highlighted the importance of trade policy being linked to other broader policy objectives (e.g. promoting national agriculture and food sector development objectives). He noted the early stage of trade policy formulation processes across the region³, with there being no 'policy bible' to guide the assist southern African governments in positioning themselves in their agricultural trade relations with third countries.

While in the course of discussions and presentations, examples of the clear articulation of policy objectives and instruments emerged, it also became evident that agricultural trade policies were not always clearly articulated. In some instances agricultural trade policies emerged in an ad hoc and responsive fashion, responding more to the lobbying of particular interest groups or external policy pressures, than the underlying needs of the food and agricultural economy. This, as one discussant asserted, can lead to a large gap between trade policy pronouncements and trade policy realities. This can pose problems both for domestic producers and traders seeking to expand out of their national markets and policy makers struggling to elaborate coherent regional agricultural trade policies.

One means of closing the gap between trade policy positions and trade policy realities identified was through the development of strong public-private sector dialogue on agricultural trade policies, aimed at establishing a clear and common vision and strategy

³ This can be seen in the staffing and institutional arrangements in many individual SADC governments.

for the future of various national food and agricultural sectors. In this context a number of important points were emphasised.

First, in market based economies it is largely private farmers and sector companies which produce and not, not governments, which need to focus on 'facilitating' production and trade, not directing it. However governments have an important role as custodians of broader national policy interests (e.g. food security and macro-economic development) and as the managers of the policy and regulatory framework within which private sector production and trade needs to take place. Getting this policy and regulatory framework right, in the diverse economic and agro-environmental realities prevailing in southern African countries, requires considerable efforts on the part of both public authorities and the private sector. As the Namibian horticulture case study (see section 3.2) and the Mauritian experience in the sugar sector (see section 3.4.) illustrates, effectively functioning institutions for policy dialogue and policy action, which bring public and private sector bodies together can play an important role in this process.

Public-Private Sector Dialogue: The case of the Namibian Agricultural Trade Forum

The ATF of Namibia was founded in 1999 as an incorporated 'association not for gain'. Its main objective was to give voice to private sector interests in the plethora of important and complicated trade negotiations which were underway. ATF is staffed by Two Trade Advisors and a Special Trade Advisor. The ATF has four specific functions:

- it represents the trade interests of the agricultural sector;
- it provides a link between Namibia's diverse agricultural interests and Government;
- it lobbies nationally and internationally for improved trade conditions for the sector;
- it gathers and disseminates information relevant to agricultural trade as well as to interact with similar non-state actors in partner countries with a view to achieving Namibia's agricultural trade objectives.

In many respects the analytical work undertaken by the ATF, in close association with its members, in the framework of its information work, provides the essential foundations for the dialogue with government.

The ATF was actively involved in the renegotiation of the SACU Agreement and participates in the SACU Technical Liaison committee meetings. ATF works very closely with both the Ministry of Trade and Ministry of Agriculture on trade negotiations with third countries and plays an important advisory role on SPS related trade policy issues.

The ATF takes part in all national consultations pertaining to agriculture trade, SPS and non-tariff barrier discussions in the SADC context, where it has been actively involved in defending the use of certain trade policy tool in support of national agricultural development objectives.

ATF was also involved at the technical level in the EPA negotiations throughout the long process of negotiations, with activities being intensified at critical junctions in the negotiations.

At the WTO level the ATF is mostly involved with the work of the SPS Committee, with current efforts focussing on the issue of private standards and whether these should fall under the ambit of the SPS Committee.

The ATF has contributed to greater transparency in the development of agricultural trade policy and has given a greater voice to the private sector in the process of national agricultural trade policy formulation.

Mutual trust and respect and the development of a clear understanding of the respective roles of public authorities and the private sector are essential foundations for the establishment of effective public-private sector dialogue. While government and private sector may have overlapping interests they equally have divergent interests and concerns (e.g. governments wider macro-economic and social policy concerns), with managing this reality constituting one of the important challenges for institutional dialogue between the public and private sectors. This constitutes the context within which any debate on the use of public funding in support of agricultural sector production and trade adjustment processes (be it a governments' own funding or 'aid for trade' support) needs to be seen.

Moving beyond these general considerations, very different national interpretations of the policy responses required emerged, in part reflecting the different economic and agro-environmental realities of SADC member states. At the workshop two illuminating illustrative examples were discussed, notably Namibia and Mauritius.

In the case of Namibia the policy perspective is clear: agricultural trade policy is the servant of national aspirations for the development of the food and agricultural sector, aspirations articulated through a process of public-private sector dialogue and rooted in clear policy objectives, tempered by a hard headed analysis of what the wider economic and agro-environmental realities will allow. Thus, while there is an agreed commitment to the promotion of free trade, this principle is qualified by certain exceptions derived from wider policy objectives and aspirations. This gives rise to the targeted use of both trade policy tools and financial instruments in support of these wider aspirations and objectives. The trade policy tools currently in use in Namibia include:

- the use of import licenses to regulate access to the Namibia market in specific sector;
- the use of infant industry protection provisions; and
- where this is deemed appropriate the use of export restrictions (including export taxes).

Critical to the effective targeted use of these tools is the establishment of a transparent and accountable framework for their management. Recently the use of these trade policy tools has been increasingly questioned in regional (SADC) and inter-regional fora (e.g. the SADC-EU IEPA negotiations). Namibian national policy is clear however, there is a continued and legitimate role for the selective use of these trade policy tools since they effectively promote expanded domestic production and enhance national food security at minimal cost to consumers and disruption of intra-regional trade flows, in a context of increasing fiscal pressures and growing global price instability.

Yet, as was apparent at the workshop, there is no consensus in the region on Namibia's use of these trade policy tools. Some participants argued their use was inconsistent with policy commitments made in a SACU and SADC context, while others argued for consistency of Namibia's use of these policy measures with existing provisions of the SACU and SADC agreements. Namibian stakeholders argued the vast inequalities in power relationships within southern African food supply chains meant the use of such policy tools could not simply be abandoned in favour of a *laissez faire* approach⁴.

⁴ This illustrates the lack of consensus within individual countries, since in the SACU context the South African government has sought to launch a debate about the link between agricultural trade policy and agricultural development and the legitimate role for the use of trade policy tools which should be accepted.

The similarities between concerns over the functioning of food supply chains in the SACU and EU concerns over the functioning of food supply chains in the EU, in a context of moves towards more market based systems of internal price formulation, were striking. What was apparent, however, is that the range of policy tools available to address these underlying concerns are quite different in ACP regions such as southern Africa compared to the EU. In Namibia, as a result of underlying financial constraints, a far larger role is seen for trade policy tools in addressing issues linked to the functioning of the food supply chain, compared to the EU where financial support instruments or other expensive institutional based solutions (e.g. competition policy) are increasingly favoured.

In the case of Mauritius, given the very different economic and agro-environmental circumstances, some similar and some different policy lessons emerged. The Mauritian experience also highlighted the importance of an effective public-private sector dialogue, with this providing the basis for hammering out a clear vision for the future of the sugar sector, the traditional basis of the Mauritian agricultural economy. It also provided a basis for reconciling competing national interests and establishing the framework for the deployment of public assistance to the 'pump priming' of the 'market led' production and trade adjustment processes required to achieve the vision for the future of the Mauritian sugar sector. However in Mauritius sugar sector adjustments formed part of a much more comprehensive macro-economic adjustment process designed to reposition the Mauritius economy within the evolving global economy.

The Diverse Reality of the SADC

The SADC region is highly diverse in terms of the size and structure of its member economies, the importance of agriculture in national production and the agro-environmental potential of each country. Members range from high income countries such as Mauritius, South Africa and Botswana, with a GDP per capita of between US\$ 5,352 and US \$7,694 to low income countries such as Malawi, Mozambique, with a GDP per capita of US \$ 264 to US \$ 369. From agriculture dependent economies such as Tanzania, the DRC and Malawi (between 34.3% and 45.3% of GDP) to economies such as those of South Africa and Botswana, where agriculture accounts for 1.7% and 2.8% of GDP respectively. They range from a small island economy such as Mauritius, with limited land resources, to land rich Mozambique, Zambia and Angola; from agro-environmentally constrained economies like Namibia and Botswana to sub-tropical, bio-diverse Madagascar, from countries with sophisticated and modern agro-food supply chains such as those in South Africa, to infrastructure constrained Malawi and Tanzania and economically dysfunctional Zimbabwe.

Economic Indicators SADC member states

Country	GDP (US \$ bn)	% share SADC GDP	% Agriculture in GDP	Population	GDP/Capital US \$	Growth Rate %
South Africa	283	65.5%	2.8%	47.9	5,900	5.1%
Angola	61	14.1%	10.1%	16.3	3,764	21.1%
Tanzania	16	3.7%	45.3%	39.0	415	7.3%
Botswana	12	2.8%	1.7%	1.6	7,694	5.4%
Zambia	11	2.5%	21.2%	12.2	915	5.3%
DRC	10	2.3%	41.1%	61.1	166	6.3%
Mozambique	8	1.9%	28.3%	20.5	369	7.0%
Madagascar	7	1.6%	25.2%	17.0	431	6.3%
Mauritius	7	1.6%	4.5%	1.3	5,354	4.6%
Namibia	7	1.6%	8.0%	2.1	3,524	4.4%
Malawi	4	0.9%	34.3%	13.4	264	7.4%
Swaziland	3	0.7%	8.1%	1.2	2,450	2.4%
Lesotho	2	0.5%	7.2%	2.4	667	4.9%
Zimbabwe	1	0.2%	19.1%	11.7	55	x
TOTAL	432			247.7	1,743	

Overlaying all this divergence in levels of development and agro-environmental potential is the overwhelming economic dominance of South Africa in the region, not only in terms of regional GDP but also in terms of regional trade, with more than 2/3rd of total trade within the SADC region involving South Africa. Indeed, outside of the South Africa/SACU, there are only limited official trade flows between neighbouring SADC Trade Protocol countries. In recent years in the food and agricultural sector the historically developed economic dominance of South Africa, rooted in transport infrastructure and investment management decisions, has been compounded by the growth and expansion of South African multiple retailers into the region.

For Mauritian policy makers the concept of 'transition' was seen as essential, a concept involving, a realistic appraisal of where you are and an objective assessment of where you can realistically expect to position yourself in the future, given evolving market realities⁵. For Mauritian policy makers the critical issue then becomes managing the 'transition', with the mobilisation of public financial resources (both domestic and 'aid for trade') and trade policy tools being determined by the strategy adopted to achieve the 'transition'. A framework is then established for the effective mobilisation and deployment of 'aid for trade' support (e.g. the assistance extended under the EU Sugar Protocol accompanying measures programme).

Mauritian use of trade policy tools has proved less controversial than in the case of Namibia, since with a very narrow agricultural production base and largely externally orientated production systems, the use of traditional trade regulating policy tools in Mauritius is more limited and less trade restrictive.

Overall these two experiences highlighted the very different realities facing southern African economies and the different policy choices being made. It also highlighted the lack of consensus in the southern African region around the issues of the role of agricultural trade policy in support of food and agricultural sector development and the legitimate use which can be made of traditional trade policy tools in an era of moves towards the increasing liberalisation of trade in food and agricultural products.

2.2. The Regional Policy Context

The diverse economic and agro-environmental realities of SADC member states, the fact that agricultural trade policy formulation is in its infancy and the lack of any clear policy consensus between SADC governments (and even within SADC government and between SADC government and 'the' private sector) on the use of trade policy tools and the link between trade policy and agricultural policy, poses major challenges for the elaboration of regional agricultural trade policies.

In southern Africa, this situation is further complicated by the overlapping structures of regional organisations and initiatives, reaching from the more cohesive 5 member groupings of the Southern African Customs Union (SACU) and the East African Community (EAC), through the larger, overlapping SADC and COMESA groupings, to the pan-African aspirations of the NEPAD and associated CAADP initiative⁶.

At the level of the SACU the 2002 agreement did not call for the establishment of a common policy in agriculture (nor by implication a common agricultural trade policy), but rather represented a 'best endeavour' commitment to the harmonised elaboration of agricultural and agricultural trade policies. This coordinated approach, rather than a common approach is reflected in the exceptions to the general principle of the free movement of food and agricultural products enshrined in articles 29 and 26 respectively of the 2002 SACU Agreement (see annex 1).

⁵ Given the evolving nature of market realities to which the 'transition' strategy needs to evolve over an extended period of time, it is essential that the transition strategy be kept under constant review within the framework of an effective public/private sector dialogue.

⁶ Comprehensive African Agriculture Development Programme.

The 2002 SACU Agreement thus contains no unequivocal commitment to the development of common policies, but a far more nuanced approach involving various degrees of cooperation, coordination and common policy development. This strongly implies that regional coordination of agricultural and agricultural trade policies is firmly based on national policies. The alternative of the establishment of common policies, would require a consensus on the basic approach to be adopted which simply does not yet exist amongst the governments of the region.

Trying to rebalance regional economic relationships is an ongoing source of tension both in the SACU and the SADC, particularly when it comes to establishing common positions in agricultural trade negotiations with third countries. Considerable effort is nevertheless being deployed to try and reconcile differing national positions and establish constructive ways of moving forward policy discussions and policy programmes. These range from the conduct of policy audits to the establishment of high level commissions. Most recently a commission has been established to draw up a blue print for the overhaul of the SACU so as to '*position it at the centre of the SADC economic integration agenda*'.

This includes exploring how part of the revenues currently distributed under the SACU revenue sharing arrangement in the form of general budget support, could be used to establish a development fund to support industrial and agricultural development programmes. The establishment of such an agricultural development fund could potentially be used to support adjustments to agricultural production patterns, linked to traded policy changes. However these discussions are still at an early stage and progress is likely to be slow.

At the level of the SADC it is recognised that there is little economic policy convergence, which makes it very difficult to establish common policies. In this context, as in the SACU, the question arises: should the objective be to establish common agricultural policies or harmonised agricultural policies?

Within the SADC's deliberations and at the workshop there was considerable debate on the role of non-tariff barriers to trade. Some workshop participants highlighted the long-standing regional policy commitments to the abolition of non-tariff barriers to trade, while other speakers emphasised the implicit compromises enshrined in regional agreements, which recognised the right to continue to use certain trade policy tools (see annex 2).

However trade policy tools such as import licences, export restrictions and infant industry protection, represent only a small range of the non-tariff barriers to trade in the SADC region. Other non-tariff barriers to trade range from a lack of harmonisation of SPS and food safety standards, through bureaucratic customs procedures, to corruption and unofficial road blocks. Clearly considerable progress can be made in getting to grips with these non-policy related non-tariff barriers to trade, without impinging on the policy space for the legitimate use of trade policy tools as part of national agricultural development policies. Clearly distinguishing between these different categories of non-tariff barriers to trade would appear to be important if progress is to be made on closing the gap between trade policy commitments and trade policy realities.

Within this framework the establishment of a reporting and monitoring mechanism on non-tariff barriers to trade could potentially lay solid foundations for greater policy harmonisation, particularly if the mechanisms being established at national and regional levels for dialogue with agricultural stakeholders prove effective.

Looking beyond the SACU and the SADC, other regional processes impinging on agricultural and food sector development at the COMESA level and pan African level, also need to be taken into account. Beyond the basic trade integration objectives of COMESA, specific operational programmes have been set up to promote production of and trade in basic agricultural commodities. Most notably in this regard is the recently established (2008) Alliance for Commodity Trade in Eastern and Southern Africa (ACTESA). The ACTESA initiative was established on the initiative of COMESA Ministers of Agriculture in response to the 2007/08 food price shock and is a specialised agency of COMESA. The main aims are to increase farmer productivity and incomes through trade in staple crops. Its specific objectives are to:

- improve competitiveness and integration of staple food markets in COMESA, through improved micro and macro-economic policies;
- improve and expand market facilities and services for staple food commercialisation;
- increase commercial integration of staple food producers into national and regional markets.

The focus of the ACTESA programme is on maize, sorghum, rice, beans, cassava and bananas, livestock and livestock products and selected food products in marginal agro-ecological zones. The activities currently under elaboration include:

- evaluations of the current business environment for staple food production and trade
- promotion and harmonisation of policies and policy dialogue on policy reforms;
- the establishment of service forums to share information on best practices and identify impediments to the production and distribution across supply chains;
- activities to strengthen farmer organisations and improve the linkage between research and extension work.

Funding has been secured for the first year of operations and a three year 'Africa Agricultural Markets Programme' has been jointly elaborated by COMESA and the World Bank. The aim of this programme is to enhance the capacity to implement regional programmes and enhance policy dialogue and coordination between public and private sector bodies.

The ACTESA programme needs to be seen in the context of the CAADP initiative⁷, and effectively seeks to operationalise CAADP objectives with regard to:

- developing regional trade in key agricultural commodities with significant growth potential;
- aligning investment and trade policies so as to unlock production potential;
- ensuring emergency responses promote agricultural growth and reduce chronic hunger.

⁷ For more details on the CAADP initiative visit <http://www.nepad-caadp.net/>

Across all these regional initiatives a key issue arising is the interface between these regional initiatives and national agricultural trade policy formulation and implementation, in a context where the target group for programme activities are 'high level government officials' and private sector opinion leaders.

During the workshop it was recognised that boosting agricultural trade in the SADC region can make a major contribution to food security through consolidating 'natural' marketing channels from food surplus to food deficit regions and a significant contribution to wider economic development by allowing the exploitation of economies of scale, thereby promoting investment and improving competitiveness. Strengthening regional agricultural trade can also serve to build greater regional consensus on policy issues and hence strengthen regional bargaining power in international trade negotiations. Promoting a coordinated regional approach could also serve to strengthen the position of southern African agricultural producers on the world market.

Impediments to regional agricultural trade identified include both production related problems (ranging from low yields to poor post harvest conservation) and a range of specific trade related problems. Production related problems were recognised as essentially national in nature and largely need to be addressed first at the national policy level. These national constraints not only inhibit the ability of southern African producers to trade regionally, but also the willingness of southern African governments to open up fully to agricultural free trade within the region. Major concerns exist over the impact of regional free trade at the regional level on national producers, particularly given the economic dominance of South African producers and retailers of regional food and agricultural markets. These concerns over the distribution of power along food supply chains in the southern African region and their impact on the national production base, raise a host of new policy challenges which governments in the region need to get to grips with, in the light of their existing commitments to regional free trade⁸. Without the development of workable initiatives to address underlying concerns, there is likely to remain, as one participant observed, major gaps between trade policy commitments and trade practice.

Despite the constraints faced, agricultural products remain the major component of trade in the region, with 31% of total agricultural imports of SADC countries coming from other SADC countries. Intra-regional trade is seen as being particularly important in sustaining value added processing activities in the agro-food sector in the SADC region. However, the reality is that South Africa is central to these trade flows, as well as the trade in basic products such as maize.

Additional problems at the regional level were seen to fall into two categories: institutional and policy framework issues; and transportation and information issues. Problems at the level of the institutional and policy framework were seen as including:

- the overlapping membership of regional economic communities;
- the lack of policy coordination and harmonisation of regulations;
- the lack of an in-depth understanding of the pros and cons of regional agricultural trade.

⁸ In developing a way forward around these issues some benefits could be gained from exchanging analytical work with the EU on its own deliberations on the functioning of the food supply chain, as the EU moves towards price formulation increasingly based on the operation of 'arbitrated' market forces.

Problems faced at the level of transport and information issues include:

- the multiplicity of non-tariff barriers to trade;
- the poor state of transport infrastructure;
- poor post harvest preservation infrastructure;
- the inadequacy of quality assurance infrastructure; and
- the uneven functioning of market information systems across the region.

With the influence of certain types of non-tariff barriers and constraints on trade being more pronounced in some parts of the SADC region than others, the difficulties of adopting a broad brush approach to boosting a regional agricultural trade within the SADC were highlighted.

It was recognised that a distinction needs to be made between different types of non-tariff barriers to trade, which need to be dealt with differently. Clearly the use in sensitive sectors of traditional trade policy tools such as import licences, infant industry protection and agricultural safeguard arrangements, is quite a different type of non-tariff barrier issue to the existence of inefficient border procedures and the proliferation of road blocks and unofficial charges. This suggests a more nuanced approach is needed in taking forward discussions on the elimination of non-tariff barriers to trade.

Given the constraints on agricultural trade faced it was suggested that 'aid for trade' could potentially play an important role in promoting progress, particularly in areas where regional action programmes were being developed. These range from the initiatives related to the harmonisation of SPS standards and the regulatory framework for trade in seeds endorsed by SADC Agricultural Ministers at their May 2009 meeting, to support for the development of cross border value chains and regional development corridors. Based on experiences to date in southern Africa, the deployment of 'aid for trade' assistance in support of these processes was felt to offer considerable scope for assisting, at a practical level, in moving forward regional agricultural and agricultural trade policy debates and discussions.

3. Trade Challenges and Policy Responses: Some Southern African Experiences

The case studies presented at the workshop sought to explore trade challenges faced on domestic markets in the evolving regional context and trade challenges on export markets in the context of evolving agriculture and agricultural trade policies in the EU. Within the national focus, through the Malawi case study particular attention was focussed on input supply problems of the smallholder farming sector producing maize. The case study of the Namibian horticulture sector looked at problems associated with the functioning of national markets in the particular regional context of southern Africa. The case studies of export products focussed on responses to the impact of erosion of the value of traditional trade preference, with one case looking at an entirely private sector led adjustment process but with government providing essential support through flanking measures (the Namibian beef sector) and the other reviewing a government facilitated process, in the context of strong public-private sector dialogue and cooperation (the Mauritian sugar sector).

3.1. Addressing Supply Side Constraints: The Case of Malawi Maize

The Malawian case study looked at the impact of an input subsidy programme on the Malawi maize sector and the long standing challenges faced in effectively supporting smallholder farmers in addressing production and marketing constraints. It was seen as particularly relevant given the food price crisis faced prior to the onset of the global economic downturn, and the projected increase in global food prices in the period following the recovery from the current economic downturn⁹.

In Malawi a number of constraints on smallholder agricultural production were identified including:

- limited access to credit and high interest rates
- limited access to inputs, particularly certified quality seed
- unaffordable prices for agricultural inputs;
- insufficient access to technology, equipment and knowledge;
- weak institutional linkages and extension structures;
- lack of access to markets;
- weak bargaining power and low product prices

In 2005/06 a Farm Input Subsidy programme was launched, which targeted resource poor smallholder farmers. Under this programme beneficiaries received a voucher to purchase inputs at a subsidised price. The initial programme was subsequently expanded, both in terms of the number of beneficiaries and the range of inputs supplied. In the maize sector this saw an average 50% increase in yields (from 0.8 MT/ha to 1.2 MT/ha), improved the knowledge of farmers on appropriate input use, enhanced agronomic practices, and in its revised form, has begun to contribute to the establishment of an expanded network of registered agro-input dealers and distributors.

Following the introduction of the programme a 173% increase in maize production occurred over one season, dramatically changing Malawi's maize supply situation (from a deficit of 855,985 tonnes in 2005 to a surplus of 1,189,606 tonnes in 2007). This dramatic increase was in part attributable to favourable weather conditions, with production projections for 2008 showing a 16% decline in overall production, reducing the surplus to 400,000 tonnes. The improvements brought about were not immediate, initial problems existed in the implementation of the scheme which required some adjustments in its design and management (e.g. the introduction of the flexi-coupon scheme). In this context the scheme yielded some important lessons.

The first of these relates to the importance of setting clear policy objectives, based on a thorough analysis of the issues and challenges faced, which directly engages with stakeholders in the sector to be assisted. While this is a straight forward statement it is very difficult to operationalise in practice, with the level of farmer organisation being a critical constraint on the ability to dialogue effectively with smallholder farmers.

⁹ The launching of the EU's €1 billion Food Facility aimed at supporting the development of the production base in vulnerable developing countries, the operational programmes of which are still being rolled out, increased the relevance of this case study.

Trends in Malawi's maize Production and National Requirements

Year	National Requirements (MT)	Production (MT)	Surplus/Deficit (MT)
2004	2,039,291	1,733,125	(306,166)
2005	2,115,317	1,259,332	(855,985)
2006	2,183,506	2,611,486	427,980
2007	2,255,049	3,444,655 ¹⁰	1,189,606¹¹
2008	2,500,000	2,900,000	400,000

The second lesson relates to the importance of setting in place a balanced programme, involving both support to input supply and addressing other agricultural investment priorities in the local area. These ranged from improving local transport infrastructure to improving storage facilities both at household and national level, embraced investments in irrigation and water management, crop production extension and extending the use of organic manure and soil conservation techniques.

A third important lesson related to the difficulties of effectively targeting the intended beneficiaries. It needed to be recognised that not all the poor could be effectively assisted through such a programme, for example, the landless and the very old. For these social groups targeted social safety nets constitute a more effective response to poverty alleviation policy priorities. This raises the important issue of the purpose of agricultural development programmes. Is the aim to promote sustainable and competitive forms of agricultural production (including smallholder agricultural production) or are such programmes a form of social welfare, designed primarily to extend support to the rural poor? Discussions in previous workshops have suggested that the donor community is at times highly ambiguous on this point, with, on occasion, a marked reluctance being shown towards supporting competitive and sustainable forms of agricultural restructuring.

The Coverage and Cost of the Malawian Input Subsidy Scheme

Year	No. of Beneficiaries	Amount (MK billion)	Subsidized Costs (MK)	Normal (average) Costs (MK)
2005/2006	1.4 million	10	950 ~\$7	3,000 ~\$21
2007/2008	1.7 million	17	900 ~US\$6.4	4,000 ~US\$29
2008/2009	1.7 million	29	800 ~US\$5.7	10,000 ~US\$71.4

A fourth lesson relates to reconciling the needs of smallholder farmers with the functioning of commercial networks in rural areas. How do you ensure that the intended beneficiaries (resource poor smallholder farmers) retain the benefits of input subsidy programmes, given the unequal distribution of power along input supply chains? Clearly strengthening farmers' organisations is one vehicle for addressing this issue. However in addressing this issue, full account will need to be taken of the functioning of the local input supply markets in each country, with locally workable solutions needing to be

¹⁰ A US study has raised question Marks about this production data (see <http://brightsonani.wordpress.com/2009/01/13/malawi-sexed-up-the-maize-estimates%E2%80%94study-maize-supplies-may-be-depleted-before-harvest-time-point-at-inaccurate-crop-estimates-as-the-main-cause/>), a view confirmed by an ODI analysis which suggest that the higher maize prices in Malawi following the 2006/07 harvest would 'suggest that maize production was over-estimated.

¹¹ Subsequent analysis from the USDA suggested the actual production expansion may well have been over-estimated given price trends on local markets.

found, for direct government action can serve to undermine existing supply chains and weaken input availability over the long term.

The Malawi Input Subsidy Programme

'Conclusions and Policy Lessons'

Experience from the 2005/06 and 2007/08 programme suggest that there is considerable potential for Malawi to improve on the outcomes from the program. There are also, however, substantial dangers that without explicit actions to improve effectiveness and control its costs the programme could become an unsustainable drain on resources' ..

'Lessons for other countries'

Decisions to implement similar subsidy programmes in other countries need to clearly identify programme benefits and objectives (with potential positive or negative interactions between them), and to establish (a) the potential for achieving these objectives (given the extent and nature of household vulnerability, food and input markets, and potential agronomic benefits of increased input use), and (b) critical features of subsidy programme design needed for effective and efficient achievement of objectives. Potential benefits then need to be weighed against the opportunity cost of resources allocated to the programme, particularly investments in long term food staple productivity growth, and the risks of failure (involving, for example, difficulties in controlling costs, dangers of fraud and/or subsidy capture, displacement, high fertilizer costs, and bad weather). These issues must then be given significant attention in programme design and implementation. High international fertiliser prices and likely increased weather uncertainty as a result of global climate change pose particular challenges and dangers – but may also, paradoxically, increase the potential gains from effective subsidy implementation. They also increase the importance and urgency of investment in promotion of wider measures for increasing soil health and fertility.

It is important that input subsidies should not be seen as a quick fix for dealing with high food prices: important and over-riding principles in their design and implementation should be that they lead to incremental access to and productive use of inputs by smallholder farmers, that they should build sustainable smallholder input demand and private sector input supply, and that there be careful consideration of the management of incremental production to provide rural people with reliable improvements in food access and real incomes'.

Source: 'Towards 'smart' subsidies in agriculture? Lessons from recent experience in Malawi', Natural Resource Perspectives 116, ODI September 2008.
<http://www.odi.org.uk/resources/download/2464.pdf>

In the context of the rapid escalation of the costs of the Malawian input supply programme the question arose as to the impact of the programme on local prices of fertilisers. Although during the workshop there was no data readily available to allow a comparison of local fertiliser price increases and world market fertiliser prices increases, a subsequent review of global fertiliser price trends showed the unit cost of the subsidy broadly rising in line with world market price developments¹². Nevertheless questions were raised in the discussions about the sustainability of such programmes in a context where a substantial proportion of programme financing is derived from donor sources. Clearly the hope is that improvements in yields and farmers' incomes, along with an

¹² See 'Continuously High Food Prices', Christopher L. Gilbert, at the UNCTAD Multi-year Expert Meeting on 'Commodities and Development', (http://www.unctad.org/sections/wcmu/docs/CIMEM2_p9Gilbert_en.pdf), which showed that a period of relative price stability between 2000 and 2006, world fertiliser prices escalating dramatically in 2007 to peak in September/October 2008 at levels approximately four times higher than mid 2006 level.

extension of the private sector based marketing network for input supply¹³, will create a situation where farmers can progressively afford to bear the real costs of input supplies, and government subsidies can be phased out. However, it is far too early to tell how the situation will evolve in Malawi.

The financial constraints on southern African governments are such that in the long term the scope for the use of such publicly funded financial support instruments would appear to be limited¹⁴. This has an important bearing on a theme which recurred on a number of occasions in the course of the workshop, namely, *the balance to be struck in the utilisation of financial support instruments and trade policy tools in southern African efforts to promote long term food and agricultural development*.

As was apparent in the course of discussions, this is currently one of the most contested areas in agricultural policy discussions both within southern Africa and between southern African governments, agricultural stakeholders and international cooperating partners.

3.2. Linking Producers to Local Markets: The Case of Namibian Horticulture Sector

The issue of the use of trade policy tools alongside public sector 'pump priming' was explored through the presentation made on the Namibian Horticulture Sector Development Initiative. This programme aimed to increase local horticultural production for the local market. The basis of this initiative was the commissioning of a study by the Namibian Ministry of Agriculture in 2000 on the horticulture supply situation in Namibia. This found that 95% of horticultural products consumed in Namibia were imported, largely from South Africa. Towards the end of 2000, with government financial assistance, the Namibian Agronomic Board organised a well publicised and attended 'road show' to seven major horticultural production areas. This explored in each production area all the constraints to the expansion of horticulture production and sought to identify solutions. The message which emerged from producers was clear '*we can produce more but we are scared to produce more because we are not sure that somebody will buy it in the end*'. The message from retailers and traders was equally clear '*it is more efficient for us to be part of the mother company's central purchasing system in South Africa*'. However willingness was expressed to '*look into ways of buying more Namibian products*'. As part of this 'road show' process representatives were elected from each of the major production areas, who together with nominated representatives from the traders, took part in a government sponsored workshop to explore what could be done to improve local production of horticulture products for the local market. From this workshop a National Horticulture Task Team was established, with this subsequently becoming a formal sub-committee of the Agronomic Board.

Thus we find that from the outset the initiative in the horticulture sector sought to involve all stakeholders, within the framework of a clear policy commitment to expanding

¹³ It should be noted that the initial design of the programme saw input distribution largely taking place through parastatals and it was only in the course of implementation that efforts were made to work more through private sector distribution networks. However, this is an area of programme implementation which needs to be substantially strengthened.

¹⁴ According to the ODI analysis the programme accounted for 40% of the Ministry of Agriculture budget and over 5% of the national budget, see 'Towards 'smart' subsidies in agriculture? Lessons from recent experience in Malawi', Natural Resource Perspectives 116, ODI September 2008. <http://www.odi.org.uk/resources/download/2464.pdf>

horticulture production for local markets, within the commercial and agro-environmental constraints facing Namibia. Significantly a regulatory framework for the promotion of the agronomic sector was already in place through the 1992 Agronomic Industry Act. This was complemented by the existence of a strong institutional structure for the consensus based management of the agronomic sector, with the 1992 Act providing a specific status for the operation of sector specific sub-committees of the Agronomic Board. This dealt with both the basis for all decision making and the financing of activities undertaken within the framework of the sub-committees, with, once a consensus emerged, government gazetting the required measures.

This consensus based, participatory approach, implemented in a clear and transparent legal and policy framework, greatly facilitated the establishment of Area Producer Associations (eventually forming a National Union of Horticulture Producers) and a horticulture traders association.

The Horticulture sub-committee of the Agronomic Board then went about developing an operational programme for the promotion of local horticultural production for local markets. This consisted of:

- the establishment of a production data base outlining all horticultural products currently under cultivation (updated every four months), with expected marketable yields, which is open to all traders by an Agronomic Board designated password;
- initially the appointment of three Area Horticulture Officers to support producers in developing production and linking up with traders (this was later discontinued with reversion to a single Windhoek based horticulture officer);
- the establishment of easy access to daily price data based on South African market prices, which provide the import parity price guideline;
- the establishment of the Namibian Market Share Promotion scheme (following a variable response from traders), which established a requirement for local purchases of horticulture products (targets have subsequently been progressively raised by 2.5% per quarter, to a current level of 32.5%).

This latter component of the scheme was made possible through the use of import licenses to regulate trade in gazetted crops. Companies not meeting local purchasing target requirements have their import licences reduced. Currently around 80% of companies meet local purchasing targets, with only 20% of companies facing limitations on their access to import licences.

The use of import licences, a traditional trade policy tool, has in the Namibian case been used to address the issue of the unequal distribution of power along the horticultural supply chain¹⁵, in a context where South African based multiple retailers dominate the distribution chain for horticultural products. The impact of this package of policy initiatives and measures has been dramatic. Local horticultural production now supplies 25% of local consumption. While initially some multiple retailers were reluctant to

¹⁵ This contrasts with the EU's use of extensive financial support to fruit and vegetable producer organisations in the EU, as the principal means of addressing inequality in power relationships along the horticulture supply chain. However, it should be noted that EU horticulture producers increasingly see current measures as inadequate and are pushing for an expansion of EU financial aid and support for specific measures to re-balance the power relationships within the horticulture supply chain.

purchase locally, these companies are now enthusiastic purchasers and marketers of locally produced horticultural products, using it as a strong market positioning tool.

A 2008 report commissioned by the Agronomic Board found the scheme had generated no cost increases for consumers, with indeed, consumers occasionally benefiting from lower prices. This report also found minimal trade distorting effects following on from the policies pursued. While the greatest production gains have been in 'easy' products such as cabbages and tomatoes, where 100% of local consumption is now met from local production, the challenge now is to move into not so easy products, where commercial possibilities nevertheless exist (e.g. potatoes). Overall the potential for local supply is estimated at 60% of local consumption, with some products simply not being commercially or agro-environmentally viable (e.g. apples). As part of the further development of this programme government is looking to establish 'collection hub infrastructure' to further improve farmers access to local markets.

As in Malawi the core scheme needed to be complemented by broader public sector investments (the governments Green Scheme irrigation development programme) and widespread private sector investments. The scheme had a number of important influences on private investment activities. By linking local farmers to local markets in a more predictable manner the scheme made it much easier for farmers to raise capital for new investment. This has seen investments of around N\$ 100 million being made in the past five years in the horticulture sector.

However the use of import licences as a trade policy tool has been criticised by some South African traders and has caused some controversy in the EU-SADC IEPA negotiations, where the EC has sought to terminate the use of import licences from the entry into force of the EU-SADC IEPA. However, the Namibian authorities have successfully defended their use of import licences and other trade policy tools in support of food and agriculture sector development in the SACU and SADC agreements and have even secured reluctant EC acceptance of their right to continue to use such policy tools in support of clearly defined policy objectives (although this has yet to be formally incorporated into the text of the agreement to be signed).

3.3. *Responding to Market Differentiation and Moving up the Value Chain: The Case of Namibian Beef Production*

In addition to looking at programmes to develop local production for local markets, the workshop also looked at strategies adopted in response to preference erosion and the evolution of market demand in major third country markets. The first of these case studies looked at the experience in the Namibian beef sector which had, prior to Namibian independence, largely exported live cattle to South Africa.

With the granting of a quota for Namibian de-boned beef exports under the Lomé Convention, the Namibian beef industry began to export prepared beef carcasses to the EU. This proved highly profitable while the EU maintained high domestic beef prices. However, with the shift over from price support to direct aid payments, EU beef prices for undifferentiated beef carcasses began to progressively fall¹⁶, eroding the value of traditional beef sector preferences. As income from exports to the EU declined this

¹⁶ Thus between 2000 and July 2002 EU beef prices fell 36% following the implementation of the Agenda 2000 round of CAP reforms.

began to have an impact on the volume of Namibian beef exported to the EU. This was compounded at certain times by the strength of the South African Rand against the Euro, which made the EU market unattractive for certain types of traditional beef exports (frozen beef). This in turn impacted on the number of cattle being placed for slaughter. This posed the problem: how should the Namibian beef industry respond to this process of erosion of the value of traditional beef sector preferences on the EU market?¹⁷

It was recognised that given the economies of scale advantages enjoyed by advanced developing country exporters like Brazil and Argentina, Namibia would never be able to compete on price with these exporters on the EU market¹⁸. Indeed, there was seen to be no future for Namibian beef exports as a 'commodity' exporter. As a consequence it was felt that Namibia should not attempt to compete on price with the likes of Brazil, but rather should concentrate on investing in 'quality' production of specific beef products for specific markets. A conscious decision was thus made to shift Namibian beef production towards competing on 'quality' grounds in the 'luxury purchase' components of the EU and other third country markets. This conscious decision however emerged and was not taken over night.

For Namibian producers and exporters to 'bite the bullet' and rise to the challenge faced, the industry had first to face a virtual collapse (with cattle offered for slaughter falling to a post independence low of 110,000 head, down from a peak of 215,000). Only in the face of acute financial distress was it possible to sell an aggressive marketing and production restructuring strategy as the appropriate response to the process of preference erosion. Had a more coherent framework been in place for 'pump priming' pro-active production and trade adjustment processes, the required adjustment might well have been stimulated earlier.

Fortunately the foundations for the new 'quality' based approach existed both within the basic beef production system (which was based on extensive cattle raising within a 'natural' production system), and in the institutional initiatives taken as early as 1999 to establish the 'Food Assurance Namibia' (FAN) scheme. This quality assurance scheme which included, over time, a fully computerised traceability system, not only sought to promote compliance with existing statutory standards, but also provided the basis for promoting compliance with anticipated future consumer expectations and market requirements (the most contemporary example being the evolving EU debate on animal welfare labelling standards, where Namibian producers have in recent years sought to situate themselves 'well ahead of the game').

This provided the essential foundations for the launching of an ambitious new marketing strategy from 2006. This involved:

- a clear identification of the quality differentiated 'luxury purchase' market components to be served, not only in traditional EU markets but beyond;
- the appointment of overseas representatives tasked with getting to know in depth final consumer needs and requirements;
- the development of a distinct brand identity (the 'Natures Reserve' brand launched in September 2008), to facilitate product identification by discerning 'quality' conscious consumers;

¹⁷ This problem is compounded by the prospect of the granting of new beef sector trade preferences to Mercosur exporters under any EU-Mercosur FTA.

¹⁸ This is the same conclusion reached by EU policy makers with regard to EU beef producers

- investment in new packing equipment (e.g. vacuum packing equipment) to ensure customers' requirements are more effectively met.

This new approach to 'quality' production and marketing required considerable investment not only by farmers and meat processors, but also by the Namibian government, in order to ensure both the maintenance of effective animal disease control programmes, and the establishment of an effective verification and certification service to provide the necessary paper trail to demonstrate compliance with all relevant food safety and SPS standards.

MEATCO Beef Exports: % Sales Value by Country

Destination	% Sales Value
Europe	39.6%
South Africa	29.5%
Namibia	12.8%
Africa	0.9%
Norway	13.5%
Switzerland	1.4%
Reunion	2.3%

This more targeted marketing approach and associated investments in production to effectively service the needs of these particular market components, has enabled Namibian exporters to secure a larger share of the premium prices available from the sale of 'quality' differentiated Namibian beef cuts. This in turn has enabled MEATCO to pay Namibian beef farmers price premiums of N\$ 183 million per annum above the prices received by comparable South African farmers¹⁹. It has also enabled the Namibian beef industry to diversify away from its exclusive dependence on overseas EU markets for prepared meat products (most notably by serving the 'quality' end of the South African and Norwegian markets). Overall this has served to stabilise the number of cattle being offered for slaughter at MEATCO facilities and has even begun to prompt a small increase in the number of cattle placed for slaughter (+ 9% in the last marketing season compared to the previous year).

3.4. Responding to Preference Erosion in the Sugar Sector: The Mauritian Experience of Managing the Transition

In the case of the Mauritian response to the imminent prospect of preference erosion in the sugar sector it was highlighted that this was part of a wider process of economic reform, aimed at dealing with multiple challenges facing the national economy as a consequence of global economic trade changes (the ending of the multi-fibre agreement, impending EU sugar sector reforms and oil price rises). This highlighted the importance of seeing agriculture sector developments in their wider macro-economic context, with the agriculture sector competing with other economic sectors for capital and labour. Thus while it is important to identify and address the specific challenges facing agriculture and food sector development in the SADC region, it is equally important to see these challenges in the wider context of the evolving national and regional economy.

It is in this context that the Mauritian response to preference erosion in the sugar sector is seen as a problem of managing the 'transition': a 'transition' from a past practice based on past realities towards a new practice based on new market and wider

¹⁹ A development aided by the conversion of MEATCO into a cooperative.

economic realities. The past reality which was seen to be rapidly phasing out, was the substantial price premiums obtainable on the EU sugar market and the quota based regulation of ACP access to the EU sugar market²⁰. Against this background Mauritian plans for the restructuring of the sugar sector were in place by 2001 (Sugar Sector Strategic Plan 2001-2005). This plan identified key constraints on the Mauritian sugar industry and developed a specific set of measures designed to address these constraints. These measures built on an ongoing restructuring process which had been underway since 1984 to try and reduce costs, improve efficiency and diversify revenue streams. The impending EU reforms simply served to focus attention on the effective operationalisation of these plans.

The measures adopted included:

- developing specific operational programmes to fully exploit all the commercial opportunities arising from sugar cane production²¹;
- developing marketing strategies to move away from dependence on raw sugar exports to the export of value added sugar products;
- a rationalisation of production at the field level, involving large scale retrenchments, land consolidation and mechanisation;
- rationalisation of production at the mill level with the number of mills being reduced to four, producing between 100,000 and 150,000 tonnes of sugar.

This strategy thus involved getting a firm grip on operational cost reduction and expanding and diversifying the revenue base. Critically it sought to undertake this process while ensuring the interests of all stakeholders were respected and stakeholders retained a stake in the restructured sugar sector. This ranged from generous retrenchment and retraining packages for former workers in the sugar industry²², through restructuring of labour recruitment practices, to debt relief and assistance with farm consolidation and land improvements. Significantly, given the sugar sector had always been highly regulated in terms of the division of the proceeds from sugar sales (particularly sales to the high priced EU market), government sought to extend this approach to the division of proceeds from new revenue streams being opened up through the public-sector supported investments in restructuring the sugar sector. This was achieved through the operations of the Sugar Investment Trust (SIT). This effectively gives farmers a stake in all new activities aimed at opening up new revenue streams and enhancing the value of existing revenue streams. While the SIT was initially limited to holdings in all sugar milling companies, the SIT now has holdings in sugar milling companies, energy companies, property and land development companies²³, leisure facilities and the provision of secretarial services.

²⁰ While the specific policy measures bringing about these reforms were not formally adopted in the EU until 2005 and 2007 respectively, policy discussions over the elimination of the difference between EU and world market prices were an integral part of the CAP reform process launched in 1992, with the first discussions on the extension of this approach to the sugar sector taking place in 1993, and this issue being revisited in 2000. The adoption of the EBA initiative in 2001 was seen in Mauritius as a clear indication of imminent EU policy initiatives in these areas.

²¹ The product mix was re-defined to include: raw sugar; special sugars; rum (rhum agricole); other rum production from molasses; electricity generation from bagasse; direct consumption sugars; ethanol from molasses and use of vinasse; optimisation of bagasse potential for electricity; ethanol from sugar cane juice; use of furnace ash, gasification of bagasse.

²² Some 1,200 factory employees and 6,000 employees in the sugar growing sector accepted voluntary redundancy packages.

²³ The establishment of property and land development arms of major sugar companies has been a feature of corporate development in the southern African sugar sector for many years, as the sugar industry restructures and former sugar lands are devoted to other economic activities.

The process of identifying mechanisms for the distribution of benefits from publicly supported restructuring processes, proved particularly difficult, with the final arrangements being the product of long and difficult negotiations between the concerned stakeholders and public authorities. This is an important consideration when considering the replication of this Mauritian model for managing sector based restructuring processes. However where public funding is being used to support restructuring, the national government can be seen to have a clear responsibility to ensure an equitable distribution of the benefits derived from restructuring occurs. Indeed, this can be seen as providing an important economic and political justification for the use of public funding in support of what are essentially market led, private sector based restructuring processes.

The Sugar Investment Trust

The Sugar Investment Trust (SIT) is a body corporate established under a 1994 Act of Parliament, which operates as a company under the Companies Act 2001. It is the largest shareholder based public company in Mauritius with more than 40,000 members. The SIT was set up initially as a participation scheme in the sugar industry; it has become a model of economic democratisation in the country. It provides a forum for participation of planters and workers at corporate decision making level of sugar milling companies as well as equity participation and therefore a share of profit which ensures a fair rate of return on investment to all shareholders. SIT has known spectacular growth. Its net assets were worth Rs 296 million in its first year of operation. The assets of the Group now exceed Rs 2 billion. Its investments were originally limited to all sugar milling companies. SIT now has a portfolio of private equity in sugar cane cultivation, sugar milling, energy, leisure, banking and property development. SIT is administered by a Board of Directors consisting of nine persons. Six out of the nine members (three planters and three employees) are democratically elected by shareholders.

In terms of revenue diversification, at a very early stage the Mauritian sugar sector recognised that in due course there would be no future based primarily on raw sugar sales to the EU market, since it was in this market component where the largest price declines were likely to fall. A conscious decision was therefore made to seek out partners in Europe which would work with Mauritius in developing direct consumption sugar sales in the EU, both of conventional white sugars and a variety of specialty sugars (Demerara, fair trade sugar and organic sugar). A commercial partner was identified (Suedzucker), which in the increasingly competitive EU market would work with the Mauritian sugar industry in marketing direct consumption sugars in Europe. This it is hoped, will serve to insulate the Mauritian sugar industry from some of the worst effects of EU price reductions and in future open up scope for market diversification beyond the EU.

However, the difficulties which were faced in identifying new routes to the EU market which offer improved revenue opportunities in a rapidly evolving market context, should not be under-estimated. Indeed, bringing about these market based trade adjustments is probably one of the greatest challenges facing southern Africa agricultural and food exporters as they seek to respond to the challenge of preference erosion. It is an area, where some level of 'pump priming' public sector financed assistance can potentially play an important role, particularly where smaller scale enterprises are involved, which have not enjoyed the financial benefits of long standing trade preferences.

Opening up new revenue streams however was also seen as extremely important, whether this be rum production, electricity co-generation, ethanol production or non-sugar sector investments, using former sugar sector assets. The SIT came to play an important role in this process.

The development of a clear industry restructuring plan, to which all concerned stakeholders were committed, greatly facilitated the subsequent mobilisation of EU sugar protocol accompanying measures (SPAM) funding. Given the mechanisms set in place for implementing sugar sector restructuring activities, it was possible to deploy the planned €127 million of EU assistance through the government budget. This enabled the Ministry of Finance to provide 'bridging financing' to facilitate the early implementation of planned activities. This ensured a very high rate of disbursement of EU funding under the SPAM programme and enabled the Mauritian government to pick up any re-allocated funding from other less successful SPAM programmes.

4. The Role of Aid for Trade

This section outlines the broad parameters of the 'aid for trade' (Aft) approach, the perspectives and expectations of southern African farmers organisations with regard to the Aft initiative, based on the extensive consultations undertaken on farmers perspectives on Aft issues within the SACAU framework and some experiences of Aft deployment.

4.1. *The Global Donor Approach to Aid for Trade*

The 'aid for trade' initiative is firmly located in the WTO process, with it being launched at the December 2005 WTO Ministerial Conference in Hong Kong. Indeed, at the global level the 'aid for trade' initiative has a legal status as a WTO agreement. The WTO's aid for trade task force identified six categories of aid for trade:

- a) trade policy and regulation;
- b) trade development;
- c) trade related infrastructure;
- d) building productive capacity (including private sector development);
- e) trade related adjustment (including adjustment support linked to changes in international trade regimes);
- f) other trade related needs.

Under this definition, 'aid for trade' contributes to strengthening trade governance, building the physical infrastructure required to trade, developing the institutional structure to promote trade, addressing investment needs linked to production and trade adjustments and a general catch all category of other trade related needs.

However it needs to be recognised that in reality 'aid for trade' pre-dates this WTO initiative with different donors and different recipients placing a different emphasis on where the focus of 'aid for trade' support should be.

The differing perspectives on 'aid for trade' became apparent in the course of the workshop, with, for example, the regional Southern African Confederation of Agricultural Unions (SACAU) putting forward a very specific agenda for 'aid for trade' support, which

has quite a different focus from the current programming of EU 'aid for trade' support under regional and national indicative programmes.

The EU and Aid for Trade

A recent EC produced fact sheet on 'aid for trade' maintains EU 'aid for trade' support between 2004 and 2007 reached a cumulative total of €7.2 billion, with the combined EC and EU member states' contribution in 2007 reaching €1.98 billion. This it argued meant the EU had already largely attend its target for 2010, whereby EU member states and the EC would both contribute annually €1 billion to 'aid for trade' activities. These 'aid for trade' activities were financed both from the European Development Fund (the main financial envelop for assistance to ACP economies) and the EU budget (the main instrument for support to sector specific trade related adjustment support initiatives).

Significantly this fact sheet highlighted how EU 'aid for trade' support was delivered in the same way as other EU aid, via the process of 'policy dialogue, needs assessments, inclusion of priorities into national and regional development strategies and formulation of response strategies'.

In its 12 November 2009 report on 'aid for trade' support for trade facilitation submitted to the WTO, the following geographical breakdown of support for the deployment of €1.01 billion to 95 trade facilitation projects was given:

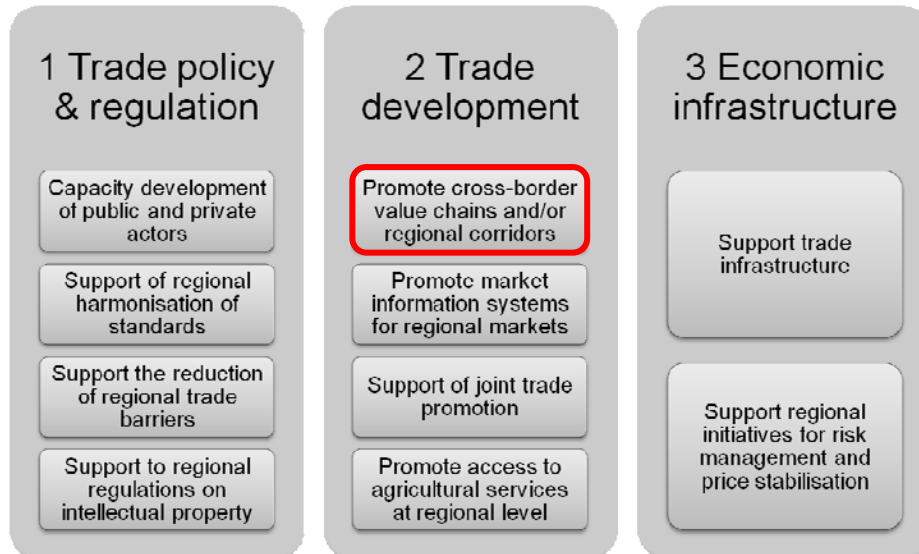
- 37% deployed in non-EU European countries (including Balkans and Commonwealth of Independent States);
- 21% deployed in Asian countries;
- 18% deployed to the countries of Latin America and the Caribbean;
- 18% deployed in African countries (but including north African countries);
- 4% to middle-eastern countries;
- 2% to Oceania;

This highlights the extent to which ACP countries, and within this group Southern African ACP countries are only one amongst many potential recipients of 'aid for trade' support.

The EC for example does not see 'aid for trade' as 'a new global development fund for trade' but as an initiative 'to expand financial resources devoted to trade as part of existing development strategies'. From the EC perspective 'aid for trade' consists of both 'aid directly helping beneficiaries formulate and implement trade policies and practice ('trade-related assistance') and aid supporting developing beneficiaries' wider economic capacity to trade, e.g. invest in infrastructure and productive sectors (wider 'aid for trade')'.



The role of development cooperation (2)



Against this background the EU's aid for trade strategy consists of five elements:

- scaling up total EU 'aid for trade' to reach €2 billion annually by 2010, with a focus on 'specific funding of trade-related assistance';
- 'enhancing the impact and pro-poor focus of EU aid for trade';
- increasing the effectiveness of 'aid for trade' support;
- 'supporting the ACP regional integration process';
- ensuring effective monitoring and reporting to sustain implementation of the 'aid for trade' initiative.

Within this broad EU framework individual EU member states have a varying focus. In the agriculture sector, for example, GTZ's focus at the regional level is on support to trade policy regulation, trade development and economic infrastructure (see table below).

Other bilateral donors may adopt different types of multi-sectoral programmes linked to their specific bilateral trade context and policy (see the box on the USAID Competitiveness hub programme).

Beyond donor perspectives at the level of Southern Africa – EU relations the question arises: how does this EU approach to 'aid for trade' dovetail with the 'aid for trade' aspirations and expectations of Southern African actors in the food and agricultural sector?

**The Experience of a Multi-Sector Policy and Enterprise Focussed Aid for Trade Programme:
The USAID Competitiveness Hub Programme**

The USAID Southern Africa Global Competitiveness Hub programme in the SADC region was launched in 2003, as part of the wider African Global Competitiveness Initiative. The aim of the programme was to improve the competitiveness of southern African products and services. The principal beneficiaries were seen as being national governments, regional organisations, business associations and individual enterprises. The programme has five major components: trade and investment enabling environment; financial services; agricultural services. Specific programmes benefitting the agriculture and food sector include:

- support to food and agricultural enterprises seeking to exploit trade opportunities under the AGOA initiative (including through participation in trade shows);
- support to SADC countries seeking to access the South African market (particularly in the area of SPS compliance and certification requirements);
- contributions to multi-donor initiatives to foster agricultural productivity and job creation in Mozambique;

At the policy level support extended includes assistance in the following areas:

- support to the SADC process for the harmonisation of SPS requirements in line with international standards;
- harmonisation of regional standards for trade in seeds;
- training on SPS standards and standards development;
- support to public/private sector dialogue in the Botswana beef sector;
- support to the formulation of regional trade negotiating positions in the beef sector;
- support to regional agricultural policy harmonisation in the SADC.

4.2. Aid for Trade Aspirations in the Southern African Agricultural Sector

The obvious starting point for reviewing the aspirations and expectations of southern African actors in the agriculture and food sector was the extensive 'aid for trade' discussions and debates held in the framework of the SACAU. In the course of these discussions a multiplicity of areas of need for 'aid for trade' support were identified. These needs however can usefully be clustered into groups (see box). Some of these are long standing issues of concern in southern Africa (e.g. land issues), others have been given increasing priority, given the ongoing evolution of global agricultural trade relations (e.g. standards and value chain issues) and wider developments (e.g. getting to grips with the HIV/AIDS pandemic). What is clear is that there are a multiplicity of issues which need to be addressed if farmer based agriculture development strategies are to be developed in the region.

In terms of the development of 'aid for trade' discussions a number of key messages emerged from the SACAU discussions. Firstly, the importance of prioritising the agricultural sector and agricultural issues within national aid for trade discussions. This can be seen as vital given the profound trade changes underway in the agriculture and food sector, in terms of preference erosion, moves towards trade liberalisation and the increasing importance of standards for effective participation of farmers in value chains. If southern Africa farmers are not effectively assisted in getting to grips with production constraints and improving their participation in agricultural value chains then the long

term future of the sector will look bleak, in the face of moves towards increased agricultural trade liberalization.

Secondly southern African farmers also need to see physical infrastructure constraints addressed (notably transport infrastructure). However, if this is not properly sequenced with initiatives to get to grips with production constraints and strengthen the position of farmers within value chains, improvements in transport infrastructure may merely serve to weaken the market position of vulnerable farmers, by intensifying the price competition which they face.

Thirdly there is a need to review aid delivery mechanisms to give a greater role to farmers organizations and other private sector bodies in the design and management of 'aid for trade' resources. Traditionally in an EU-Southern African context aid resources have been programmed and deployed through governments, yet as was pointed out at the opening of the workshop it is in large part the private sector which produces and trades not governments. Thus if the objective is to strengthen production and trade through the deployment of 'aid for trade' resources, this will increasingly need to involve the development of mechanisms for the direct deployment of 'aid for trade' funds in support of private sector (including farmer organisations) based restructuring and development initiatives in the agriculture and food sector.

Fourthly, it was recognized that given the traditional donor preference for working through governments (and the current EC focus on deploying aid in the form of budget support), if farmers associations and private sector bodies are not to get into 'competition' with national and regional authorities for scarce donor resources then 'aid for trade' funds will need to be additional to conventional development assistance packages and not simply be a re-packaging of existing aid commitments. This SACAU position potentially poses a problem in the EU context, where as the EC has acknowledged the EU's 'aid for trade' initiative is not 'a new global development fund for trade' but an initiative 'to expand financial resources devoted to trade as part of existing development strategies'. Existing development strategies financed from existing instruments and delivered in the same way as other EU aid, via the process of 'policy dialogue, needs assessments, inclusion of priorities into national and regional development strategies and formulation of response strategies'.

This could potentially serve to throw up conflicts between governments in southern Africa and farmers associations and other private sector bodies. Although as can be seen from the Mauritian experience in the sugar sector, under specific circumstances and arrangements, deploying aid funding through government structures can provide an efficient vehicle for extending 'aid for trade' support to production and trade adjustments. However this requires a clear transition strategy to be in place, which is market led and has been developed by government in close consultation with the affected private sector stakeholders.

SACAU Aid for Trade Needs

Production Constraints

- Land Policy (Security of Tenure);
- Technology R&D and Transfer ;
- Sustainable natural resource management;
- Input supply – finance, seed quality, fertilizer, pesticides, insurance against natural disasters;
- Health (HIV and AIDS)

Value Chain Issues

- Value Addition;
- Value Chain Analysis;
- Participation of farmers in the value chain;

Trade Facilitation Regulation and infrastructure

- Standards (Private standards, Global GAP, ISO, certification and accreditation);
- commodity brokering;

Physical infrastructure

- Feeder roads;
- Irrigation;
- Storage;
- Port infrastructure;
- Transport infrastructure;
- Communications infrastructure

Institutional Support

- Capacity Building (Trade negotiations, Implement WTO Agreements);
- Information and Education;
- Policy skills development (investment, trade, data modelling, macro economy, interest rates, exchange rates);
- Monitoring and Evaluation of Aft programmes.

The fifth major priority message arising from the SACAU dialogue on ‘aid for trade’ issues relates to the functioning of the value chain and how to strengthen the position of farmers within existing and emerging agricultural value chains. While this is seen as a key area by farmers, it is a relatively new, potentially controversial area, for the donor community. Yet, in the case of the EU, it is area which has recently received considerable policy attention with the tabling of a Commission communication entitled ‘a better functioning of the food chain in Europe’.

This communication explored such areas as: the process of price transmission along the food supply chain in the EU; the evolution of value added repartition along the European food supply chain; the extent and nature of competition in the food supply chain; how to improve price transparency along the food supply chain; and the role and functioning of agricultural commodity markets. A number of critical areas of concern were identified in the EC communication including: the existence of significant tensions in contractual relations between actors in food supply chains stemming from their diversity and differences in bargaining power; the overall lack of transparency of prices along the food chain; and the dangers posed by increased volatility of commodity prices in a context of ‘sticky price’ transmission along food supply chains.

These issues clearly have relevance in the context of intra-southern African and EU-southern Africa agricultural trade relations, particularly when viewed from a farmers perspective. However, it is unclear to what extent 'aid for trade' instruments can provide a vehicle for getting to grips with these issues, outside of the framework of sector specific programmes. Within sector specific programmes, as the examples of the Mauritian sugar sector illustrates, public sector policies can be developed which are designed to rebalance power relationships within supply chains, with publicly financed programmes of assistance (be they financed by 'aid for trade' support or nationally financed) providing financial leverage to this rebalancing process.

Key Functions of SACAU in 'Aid for Trade' Discussions

Six main areas were identified in the workshop presentation where SACAU can play a role

- monitoring global developments in aid for trade discussions as these relate to the agricultural sector and providing regular briefings to national farmers organizations on the most important developments;
- facilitating stakeholder consultations at the regional level;
- coordinating policy advocacy at regional and global levels;
- management of regional aid for trade projects established in support of farmers organizations;
- provision of technical backstopping support to national farmers' organisations (including with regard to project development);
- general information support activities in the field of 'aid for trade' to the agricultural sector.

What was clear from the SACAU presentation is that if farmers are to be assisted in getting to grips with agricultural development and restructuring challenges, then institutional capacity building support needs to be extended to farmers organization to enhance the level of organization within the sector. In some instances this support will need to be delivered at the national level and in other instances it can best be provided to regional associations such as SACAU. Such support will need to assist farmers' organizations in getting to grips with the substantial agenda of 'aid for trade' needs identified, be they related to: relieving constraints on production; rebalancing power relationships along agricultural supply chains to the benefit of farmers; getting to grips with trade facilitation issues; identifying farmers' infrastructure investment priorities; or getting to grips with emerging policy issues in the agriculture and food sector, including the establishment of frameworks for the effective deployment of 'aid for trade' financing in support of agricultural sector development and restructuring.

In addition the SACAU discussions have made clear that 'aid for trade' debates also need to be linked to policy discussions, most notably discussions over the continued use of trade distorting agricultural policy instruments in advanced developing countries and their consequences for markets of interest to southern African agricultural producers. While wishing to launch a debate at this level, SACAU made it clear that it was opposed to policy 'conditionalities' being linked to 'aid for trade' support in the agricultural sector. Policy discussions were also felt to be necessary with regard to the coordination and deployment of 'aid for trade' support and the enforcement of rights under existing trade agreements.

Overall SACAU made it clear that any discussions of 'aid for trade' in the agricultural sector needed to start with the issues and constraints facing southern African agricultural producers. They needed to embrace well structured consultations with farmers organisations at both national and regional level and be sustained by an intensive programme of capacity building support to enhance the capacity of farmers representatives to engage effectively on the multiplicity of policy issues faced.

It was recognised that commodity associations at national level provide the backbone of farmer's organisations in southern Africa, and hence this should be a focus for 'aid for trade' support. However, it was equally recognised that regional commodity associations were also needed to deal with the regional and inter-regional dimensions of agricultural trade policy. In terms of the role of SACAU itself, it was felt that an important complementary role existed for the handling of cross sector issues, with these needing to be carefully defined.

4.3. *Aid for Trade Experiences: Lessons form the Southern African Sugar Sector*

Complementary to the presentations from SACUA was the presentation made by the Swaziland Sugar Association on its experience of 'aid for trade' support under the EU's sugar protocol accompanying measures programme. This is an EU financed multi-annual programme established to assist former ACP sugar protocol beneficiaries in adjusting to the reform of the EU sugar regime and the abrogation of the ACP-EU Sugar Protocol. Its explicit aims are to:

- enhance the competitiveness of ACP sugar sectors (including through diversifying the revenue streams generated from cane production), where this is financially and environmentally sustainable;
- promoting economic diversification where the sugar sector is no longer financially viable;
- assisting in addressing broader impacts of the adaptation process, including sustaining social service provision and environmental protection.

With an allocation for the period 2007-2013 of €1,284 million, this programme is the single largest EU 'aid for trade' programme. In the SADC region there are eight beneficiaries, in total benefitting from €255.912 million in restructuring assistance over the period from 2007-2010 (for details see annex 3).

The utilisation of resources under the EC sugar protocol accompanying measures programme (SPAM) is based on an extensive process of consultations with sugar sector stakeholders and the national governments, with the intention of establishing a programme which reflects local needs and priorities. However, as discussions in the workshop revealed, while there was a consensus on broad priorities, when it came to decisions relating to the funding of specific activities a divergence of views emerged.

While the sugar industry's emphasis was on supporting measures which had a direct and immediate impact in terms of reducing the costs of vulnerable sectors of the Swazi sugar industry, the EC and Swazi government favoured the financing of longer term investment projects, some of which were an extension of existing areas of intervention under Swaziland's NIP (support to the further development of the LUSIP scheme) others of which picked up ready-to-go, off-the-shelf road infrastructure projects for which the

government had been seeking funding for a number of years. Thus in the early years of the Swaziland SPAM programme, funding has been devoted to activities which were not necessarily the immediate priority for the sugar industry as whole, which felt emphasis should have been placed on operational measures which would reduce underlying costs in a context of pending EU price reductions.

As a consequence of this divergence of perspectives on funding priorities, a situation has arisen where despite the allocation of €37.6 million in SPAM funding to Swaziland for the 2006-08 period, there has been 'no tangible delivery of assistance on the ground' to sugar farmers or sugar millers. To date no EU funding has been 'disbursed to operational programmes to mitigate the impact of EU price cuts'²⁴. As a consequence 'the burden of adjustment related to EU price cuts has been carried by the sugar industry', although the Swazi government has intervened with a programme of direct assistance to relief new smallholder farmers of the financial burden of infrastructure investments made up to the farm gate.

The cause of this disappointing performance is seen by the Swaziland Sugar Association as lying in the divergence in operational prioritisation which emerged. This divergence can be seen to have emerged largely in response to the administrative challenges faced in deploying funds within the time frames established under EU annual budget regulations, although concerns over the basis on which public funds could legitimately be used to support essentially private sector based adjustment processes, also appears to have played a role.

Moving forward, from the Swazi sugar industry perspective, the main priority is to close this gap between sugar industry priorities and the actual use of EU funding. This it is felt can be achieved by making more use of existing sugar industry structures in the design and implementation of operational programmes designed to reduce costs and enhance competitiveness. This it is felt could ensure that available EU assistance is more efficiently and effectively used in support of essential sugar sector restructuring. However it is recognised that this will require substantial strengthening of the institutional capacity of the representative and accountable multi-stakeholder body, the Swaziland Sugar Association, if it is to effectively play a role in reconciling competing industry demands and carrying forward a targeted dialogue with government on priorities.

It should be noted that with the notable exception of Mauritius, where a market led, private sector based, government coordinated restructuring strategy and operational programme was in place before the launching of the EC SPAM programme, similar problems²⁵ have been faced in effectively mobilising and utilising EU assistance to sugar sector adjustment processes in all southern African beneficiaries (see annex 3 for details). Against this background the question arises: what lessons can be learnt from the Mauritian experience? Here the main lessons seems to be the importance of the adoption of pro-active approach, so that a consensus based framework for the utilisation of external aid for trade support is firmly set in place before the funding becomes available.

²⁴ Indeed, of the €37.6 million allocated only €1.8 million had been disbursed by April 2009 (4.8% of the Total allocation mobilised), with this exclusively being used for programme management and programme preparation activities. This is despite the fact that the full effects of the EU price cuts were felt from October 1st 2009.

²⁵ Although of course somewhat less acute, given the smaller levels of funding deployed under these other programmes.

In the Mauritian context, with work on the sugar restructuring strategy having been set in place five years before the announcement of the specific EU reforms, a clear 'transition' strategy to assist the sugar sector in moving from its traditional role to a new role in line with the new market realities, was in place by the time the EU funding came on stream. This meant that when it came to the implementation of operational programmes the Mauritian government was better placed to get to grips with new policy issues, such as ensuring an equitable distribution of the benefits of restructuring along the supply chain, and was in a position both to set in place and finance investment programmes which gave both millers and growers a share in the new revenue streams being opened up from the production of sugar cane.

4.4 Aid for Trade Experiences: Lessons form the Caribbean Rum Sector

By way of providing a cross regional comparison to the sugar sector experience a presentation was made at the workshop on the experience of 'aid for trade' support in the Caribbean Rum sector, under a programme explicitly established to address the consequences of preference erosion. A number of important lessons were drawn from this highly successful programme in terms of the design and implementation of donor supported cost sharing grant schemes (CSGS), establishing in support of trade and production adjustment processes. In terms of programme design the following areas were highlighted:

- the importance of clearly defining specific objectives to be attained via the CSGS;
- the need for well conceived and managed accompanying measures to support CSGS implementation in pursuit of the overall programme objectives;
- the importance of providing EC co-financing at a level which provides an incentive for the adoption of pro-active trade and production adjustment responses;
- the importance of addressing tendering and procurement issues in the design phase so as to avoid any disruption of normal commercial 'best practice' procurement;
- the need to build flexibility into the budget process, so aid utilisation can follow the actual demand of recipients for funds under the different windows established, thereby being effectively recipient driven;
- the importance of establishing efficient and transparent decision making systems, which take into account issues of commercial confidentiality.

In terms of programme implementation three major issues were stressed:

- the importance of providing effective support to the administration of the reimbursement process under cost sharing grant schemes where eligible companies have to first pre-finance the approved investments before seeking reimbursement of a proportion of the costs;
- the need for an ongoing review process so problems in the management of implementation can be identified at an early stage and remedial measures can rapidly be set in place;
- the difficulties faced in using CSGS to support certain types of activities and hence the need to carefully define what should and should not be eligible for support (particularly in the marketing and distribution area).

5. Moving Forward the Policy Debates and Policy Response

5.1 Finding the Way Forward on Policy Harmonisation

In the SADC region the issue of the relationship between well established national processes of policy making and the development and consolidation of harmonised region wide policies has still not been fully addressed. Some argue for a gradual pragmatic approach, with harmonised policies being allowed to emerge from the process of coordination and cooperation. Others argue for the development of regional policies which should take precedence over national policies. Here it is argued that a clear regional and sub-regional policy framework is required if the dynamic potential of regional market integration in the agro-food sector is to be exploited. Regardless of the view adopted the reality is that processes of national agricultural policy formulation (and competition policy elaboration), continue at varying levels of intensity within national governments of the SADC region, with varying degrees of cooperation and coordination taking place across the region.

One way forward currently being operationalised is the establishment of mechanisms for dialogue with agricultural stakeholders. The quality and effectiveness of these dialogue mechanisms at national and regional level are likely to be critical to the ability of such initiatives to generate a basic consensus on the elements which would need to underpin any common regional agriculture and agricultural trade policy.

Important issues which still need to be addressed in getting to grips with policy formulation at national and regional levels include:

- identifying the specific non-tariff barriers which need to be removed to boost agricultural production and trade;
- clearly identifying the trade policy tools which should continue to have a legitimate role in national and sector based agriculture development policies and the parameters within which such tools can be used;
- identifying the effective mechanisms and policy tools which can be used to address inequalities in power along supply chains, to the benefit of producers and the development of the national and regional productive base;
- identifying the policy tools which governments should be allowed to use to address national food security concerns in an era of heightened global price instability;
- identifying the balance which needs to be struck between the use of financial and trade policy tools in supporting the development of agricultural production (including in addressing supply side constraints);
- ensuring the interests and needs of smallholder farmers are clearly identified and effectively addressed.

5.2 Lessons from Specific Adjustment and Development Experiences

From the **Malawian maize case study** a critical issue identified was the sustainability of financial support schemes for input supply in the specific fiscal context facing most southern African governments. It would appear to be important to find ways to

strengthen the functioning of the input supply chain by addressing inequalities in power relationships along the input supply chain, so that once the government subsidies have been removed, resource poor farmers continue to enjoy enhanced access to inputs essential to raising their productivity and net income position. The establishment and strengthening of well managed and accountable farmers organisations would appear to be essential in getting to grips with input supply issues on a financially sustainable basis.

However consideration may also need to be given to the targeted use of trade policy instruments to sustain production improvements by supporting the effective and efficient marketing of expanded production, a development essential to the attainment of the underlying objective of enhancing the net income position of resource poor farmers. A balance needs to be struck between the use of financial tools and the use of trade policy tools. However, it needs to be recognised that this is one of the most contested areas of agricultural trade policy in regional discussions in southern Africa at the present time.

The **Namibian horticulture sector experience** was felt to hold a number of important lessons for other Southern African ACP countries, namely:

- the central importance of comprehensive and effective consultations with all stakeholders in securing real and substantive 'buy-in' to such schemes, a process for which government 'pump priming' financial support can be essential;
- the importance of delegating implementation of any such scheme to a representative and accountable industry led body, so as to ensure responsive development of the programme;
- the important facilitating role which the government can play in getting the process going (via 'pump priming' support) and the importance of having an established regulatory framework for the implementation of such initiatives;
- the greater financial sustainability of well managed trade tools, given the fiscal constraints on governments in southern Africa, compared to developed economies such as the EU;
- the often more development and consumer friendly effects of the use of non-tariff tools compared to tariffs;
- the importance of leaving space for the use of traditional trade policy tools in sensitive food and agricultural sectors under free trade agreements (be they intra-regional or inter-regional FTAs)

Reviewing the experience of the **Namibian beef sector** in response to the process of preference erosion, a number of lessons were identified during the presentation and discussion, most notably:

- the importance of understanding how market demand is evolving, the nature of the competitive challenges faced, and how, based on the strengths of the local production system, the sector can reposition itself in the light of the new realities;
- the importance of effective 'product differentiation' and investing in restructuring marketing and production systems to effectively serve 'premium priced' market components ;
- the importance of getting close to the targeted consumers, so as to better understand their needs and better serve those specific needs;

- the importance of never compromising on ‘quality’ once you have taken the decision to differentiate your product on ‘quality’ grounds;
- the need to ensure that producers fully understand the marketing strategies being developed and the centrality of maintaining quality standards to commercial success;
- the importance of ensuring producers share in the commercial benefits of quality production, with ‘quality’ production being incentivised through the pricing policy;
- the importance of ensuring effective alliances are established with government, so that governments effectively carry out those functions which only government departments can play in the new trading environment, as part of a public/private partnership committed to ensuring the industry repositions itself in the light of the evolving market conditions.

Overall a number of lessons emerge from **the Mauritian sugar experience**:

- the importance of having in place a clear policy framework for the restructuring of sectors affected by preference erosion, if one is to effectively make use of available ‘aid for trade’ funding;
- the importance of placing national economic considerations at the forefront of any sector restructuring process, with in the case of Mauritius this focussing on how sugar sector adjustments should fit in with wider processes of national economic reform, designed to reposition the Mauritian economy in a rapidly evolving global economic context;
- the importance of clearly identifying and understanding the options available in the evolving market context, an issue which is critical to coherent policy formulation;
- the importance of ensuring all stakeholder interests are taken on board and addressed within the restructuring process, this is essential to ensuring ‘legitimacy’ for the use of public funds in support of the restructuring process;
- the complexity of the issues faced in getting to grips with revenue distribution issues along value chains, particularly in a rapidly evolving market context;
- the importance of keeping restructuring options open within the strategy for managing the ‘transition’²⁶.

Across a number of sectors the difficulties faced in identifying market-led trade adjustment strategies and then effectively developing operational programmes to support the trade adjustment process was identified. Yet this is critical to the whole production and trade adjustment process in response to trade policy changes and evolving food and agricultural product markets. What is clear is that well designed and carefully targeted public sector ‘pump priming’ support can greatly assist producer organisations in getting to grips with the market led trade adjustment challenge.

5.3 Lesson from the ‘Aid for Trade’ Experience to Date

The first and most basic lesson emerging from the presentation by SACAU on the aid for trade discussions amongst farmer organisations in southern Africa was that any ‘aid for

²⁶ Throughout its dealings with the EU on sugar sector reform issues, the Mauritian authorities sought to hold a given policy line, until it was necessary to abandon this in favour of pre-prepared fall back positions; with at each stage maximum benefits being extracted in terms of support for the underlying ‘transition’ strategy being pursued.

trade discussion in the food and agricultural sector have to start with the issues and constraints facing southern African agricultural producers. This appears a blindingly obvious statement, yet it is one which is commonly overlooked and regularly neglected. Closely linked to this issue is the over-riding importance of supporting the establishment and strengthening of farmers organisations. Commodity associations at the national level are seen as the essential building blocks of any regional network of farmers organisations capable of engaging with the donor community on 'aid for trade' in the food and agricultural sector. The importance of establishing effective working relations with national sector associations in implementing aid programme in support of production and trade adjustment processes was clearly highlighted through the Swazi sugar sector case study. To date large volumes of sector support have yet to find their way down to farmers and processors seeking to reduce costs, improve productivity and enhance revenue streams in the face of a 36% reduction in the EU reference price for sugar.

The second basic lesson appears equally obvious, namely that if agricultural development is to be effectively supported through the deployment of 'aid for trade' instruments then agriculture needs to be prioritised in national aid programming discussions. This suggests a need to review ongoing aid programming exercises at both the national and regional levels in southern Africa. Closely linked to this is the importance of establishing new aid delivery mechanisms, which allow the direct involvement of commodity associations, farmers organisations and private sector bodies, in the design and management of production and trade adjustment and development programmes in the agricultural sector.

Following on from this is the importance of recognising the need for the establishment of new financial instruments to support agricultural stakeholders in undertaking production and trade adjustments, so as to avoid any risk of 'competition' with public authorities for scarce donor funding. This is an important issue given the heavy focus within aid deployment processes on attaining social objectives set out in the Millennium Development Goals.

A final issue linked to aid deployment is the importance of sequencing support to transport infrastructure improvement in tandem with the implementation of programmes of support to the enhancement of productivity of the smallholder farming sector and programmes of assistance aimed at strengthening the position of farmers within supply chains. This is important for transport improvements on their own may simply intensify the competition faced by smallholder farmers on their local markets, if these proceed ahead of the 'soft ware' investments in farmer organisation.

Moving away from the purely aid deployment issues a new cluster of issues have emerged related to improving the functioning of value chains in southern Africa. Some experience exists in southern Africa of the use of trade policy tools to rebalance power relationships along supply chains, but these lessons tend to be specific to particular policy and institutional contexts. However this is an area to which the EC is devoting increased policy attention, and there may well be important lessons which southern African governments can learn from the EU's approach. This being said southern African governments generally have far less scope for using financial support instruments in addressing supply chain issues than is the case in the EU, so the lessons to be drawn may be rather limited, and relate more to the possible use of other policy tools such as 'competition policy' and 'guideline contracts'.

In terms of the lessons arising from the Caribbean rum programme costs sharing grant scheme experience for other ACP countries, five major issues were emphasised:

- the importance of sustained advocacy, alliance building and industry leadership in moving from conceptualisation to operationalisation of trade and production adjustment support programmes;
- the importance of dealing with tendering and procurement issues in the design phase through the drawing up of a dedicated manual of procedures jointly agreed with the EC services;
- the importance of ensuring the EC co-financing contribution under any cost sharing grant scheme is sufficient to incentivise pro-active, market led production and trade adjustment activities;
- the importance of establishing flanking programmes of administrative support for the implementation of trade and production adjustment programmes and the attainment of wider programme objectives;
- the central importance of trade adjustment and marketing support to the overall process of production adjustment.

Overall, once initial design and establishment problems have been addressed the cost sharing grant scheme approach can prove to be a relatively quick way of committing and disbursing funds in support of operational improvements targeted at enhancing the competitiveness of ACP production, in ways which are market led and private sector based.

At the more general level one of the over-riding lessons to emerge from the workshop is that 'aid for trade' support can be most effectively deployed where a consensus based restructuring and development strategy is already in place. Where this is the case and it is complemented by a well established administrative capacity then 'aid for trade' support whether channelled through government or directly to a private sector association can prove extremely valuable in supporting production and trade adjustments in the food and agricultural sector.

Annex 1: The 2002 SACU Agreement Provisions

Agriculture and the 2002 SACU Agreement

While the fundamental principle of free circulation of goods within the five territories which make up the SACU, is enshrined in Article 18.1 of the SACU Agreement, this is qualified by a number of specific exceptions. Article 29: 'Arrangement for Regulating the Marketing and Agricultural Products' states

'3. Notwithstanding paragraph 1, each Member State may impose marketing regulations for agricultural products within its borders, provided such marketing regulations shall not restrict the free trade of agricultural products between the Member States, except as defined below:

- a) emergent agriculture and related agro-industries as agreed upon by Member States; or*
- (b) any other purposes as agreed upon between Member States.*

4. Each measure shall be subject to a negotiated sunset clause outlining its conditions and period'.

Similarly article 26, 'Protection of Infant Industries' states:

'1. The Government of Botswana, Lesotho, Namibia or Swaziland may as a temporary measure levy additional duties on goods imported into its area to enable infant industries in its area to meet competition from other producers or manufacturers in the Common Customs Area, provided that such duties are levied equally on goods grown, produced or manufactured in other parts of the Common Customs Area and like products imported from outside that area, irrespective of whether the latter goods are imported directly or from the area of another Member State and subject to payment of the customs duties applicable to such goods on importation into the Common Customs Area.

2. Infant industry means an industry which has been established in the area of a Member State for not more than eight (8) years.

3. Protection afforded to an infant industry in terms of paragraph 1 shall be for a period of eight (8) years unless otherwise determined by the Council.

4. The Council may impose such further terms and conditions as it may deem appropriate.'

The right to establish these special arrangements, subject to mutual agreement by member states, is recognised in article 25.2, which includes a specific 'grandfather' clause which states:

'the provisions of this Agreement shall not be deemed to suspend or supersede the provisions of any law within any part of the Common Customs Area which prohibits or restricts the importation or exportation of goods'.

These special exceptions are allowed despite the fact that article 25.3 which deals with 'import and export prohibitions and restrictions', explicitly states that the continued rights given to member states to restrict imports and exports for economic, social or cultural reasons

"shall not be so construed as to permit the prohibition or restriction of the importation by any Member State into its area of goods grown, produced or manufactured in other areas of the Common Customs Area for the purpose of protecting its own industries producing such goods".

In terms of common policy development agriculture is dealt with under article 39, which states simply

'1. Member States recognize the importance of the agricultural sector to their economics.

2. Member States agree to co-operate on agricultural policies in order to ensure the co-ordinated development of the agricultural sector within the Common Customs Area'

The provisions on competition policy and unfair trade practices are also relevant in the food and agriculture sector. Article 40 competition policy states

'1. Member States agree that there shall be competition policies in each Member State.

2. Member States shall co-operate with each other with respect to the enforcement of competition laws and regulations'

Article 41 'unfair trade practices states:

'The Council shall, on the advice of the Commission, develop policies and instruments to address unfair trade practices between Member States. These policies and measures shall be annexed to this Agreement'.

This provides the SACU policy context within which the debate on the use of trade policy tools within the SACU needs to be seen.

Annex 2: SADC Trade Protocol Provisions

SADC and Non-Tariff Barriers to Trade

Under the SADC Trade Protocol a pragmatic approach to addressing the issue of non-tariff barriers to trade was adopted. While the SADC Trade Protocol includes commitments on the elimination of non-tariff barriers such as import quotas, customs procedures and export subsidies, it excluded such non tariff measures as local content requirements, levies and other border charges and import and export licensing arrangements, from the process of removal of non-tariff barriers, providing the trade distorting effects are minimal. This left the most sensitive issues related to the removal of non-tariff barriers on intra-SADC trade to be dealt with pragmatically in the context of the work of the SADC Trade Negotiations Forum.

Such pragmatism is needed since to varying degrees *“all the SADC member states apply some kind of restrictive trade barriers in relation to their staple agricultural commodities”*. Thus we find *“Malawi, South Africa and Tanzania seem to have the most liberalised trade environment in terms of agricultural commodities, but still apply strict SPS, rules of origin and licensing requirements, which could result in similarly severe trade distortions as the quantitative import restrictions which Botswana, Zambia and Namibia impose through generally applied restrictions and which Zimbabwe and Mauritius apply through the sole importation rights vested in the specific country’s marketing boards²⁷”*. These complex issues, which need to be seen in the context of wider agricultural development policy priorities and food security policy objectives, require careful assessment before taking any decisions on what needs to happen with regard to individual non-tariff measures used by particular SADC governments in pursuit of often commonly agreed policy objectives.

However it needs to be borne in mind that the existence of this multiplicity of non-tariff barriers to trade may be a significant contributing factor to the relatively poor performance of the SADC Trade Protocol in terms of promoting intra-regional trade flows. Thus we find the 2007 audit of the implementation of the SADC Trade Protocol concluding that after eight years of implementation the SADC Trade Protocol *‘has not had a significant impact on intra-regional trade flows and the ease of exporting within SADC, and thus may have not had a significant impact on job creation and poverty alleviation within SADC’*.

²⁷ See “Evaluation into the Potential Effects of the Abolishment of the Current Reference Price and Import Measures within the Namibian Agronomic Sector”

Annex 3: SPAM Programmes in Southern Africa

Country	Initial SPAM allocation 2007-10 (€)
Mauritius	127,541,000
Swaziland	69,895,000
Malawi	9,911,000
Mozambique	6,000,000
Madagascar	8,428,000
Tanzania	6,000,000
Zambia	6,000,000
Zimbabwe	22,137,000
Sub-Total	255,912,000

The EC Accompanying Measures Programme in Eastern and Southern Africa

In all across the 8 SADC countries which were beneficiaries under the EC accompanying measures programme, between 2006-2008 €142.761 million was allocated in support of for restructuring and adjustment activities. Of this total slightly over €47.220 million had been disbursed by April 2009. However it should be noted that fully 52% of this funding was allocated to Mauritius, which accounted for 84% of disbursements. Outside of Mauritius, only slightly under 11% of allocated funding had been disbursed four years after the launch of the EC accompanying measures programme.

Commitment and Disbursement Rates under EC Accompanying Measures Programme 2006-08*: Situation Southern and Eastern African Beneficiaries April 2009

	Global Allocation	Secondary Commitments	Disbursements	Disbursements % of allocation 2006-2008
Swaziland	37,598,000	7,333,942	1,799,955	4.787%
Mauritius	74,866,000	42,500,000	39,800,000	53.162%
Malawi	10,578,000	2,812,580	1,075,291	10.165%
Mozambique	6,562,000	6,350,000	550,000	8.382%
Tanzania	6,562,000	2,694,514	2,283,043	34.792%
Zambia	6,562,000	469,943	327,168	4.986%
Madagascar	3,895,000	753,554	628,390	16.133%
Zimbabwe	2,700,000	2,359,962	753,127	27.894%
	142,761,000	69,499,066	47,219,974	33.07%

* The global allocation in column 1 refers to funds allocated in 2006,2007,2008 and excludes the allocations made for 2009 and 2010, for which no commitments and payments could have been made by April 2009. The total allocations for 2006-10 for each country are larger than indicated in this table.

Annex 4: List of participants

Title	Firstname	Surname	Country	Organisation	Position
Mr.	Vincent	Fautrel	Belgium	CTA	Programme coordinator Agricultural Trade
Mr.	San	Bilal	Belgium	ECDPM	Programme coordinator Economic and Trade Cooperation
Dr.	Paul	Goodison	Belgium	GDC Partners	Freelance consultant
Mr.	Anselmo	Nhara	Botswana	Southern African Development Community (SADC)	Regional Trade Policy Advisor
Ms.	Paulina M.	Elago	Botswana	USAID Southern Africa Global Competitiveness Hub	Deputy Director Trade Facilitation and Capacity Building
Dr.	Thomas	Michel	Germany	GTZ	Project manager Agricultural Trade
Mr.	Emmanuel	Tambi	Ghana	Forum for Agricultural Research in Africa (FARA)	Director of Regional Policies and Markets
Ms.	Beatrice	Makwenda	Malawi	NASFAM – National Small holder Farmers Association of Malawi	Policy Coordinator
Mr.	Jocelyn	Kwok Yin Siong Yen	Mauritius	Mauritius Chamber of Agriculture	General Secretary
Mr.	J.C.	Du Plessis	Namibia	Meat Corporation of Namibia	CEO
Mr.	Jürgen A.H.	Hoffmann	Namibia	Namibia Agricultural Trade Forum	Trade Advisor
Mr.	Christof	Brock	Namibia	ATF	CEO/Management Committee member
Ms.	Ndiitah	Nghipondoka-Robiati	Namibia	Agricultural Trade Forum	Trade Advisor
Mr.	John	Mandy	Namibia	Namibia Trade Forum	Chairperson
Mr.	Oloff	Munjanu	Namibia	Namibia National Farmers Union	Executive director
Mr.	Katando	Kangueehi	Namibia	Namibia National Farmers Union (NNFU)	Technical Assistant
Ms.	Vivienne	Katjiuongua	Namibia	Namibia Agricultural Trade Forum	Trade Advisor
Dr.	Malan	Lindeque	Namibia	Ministry of Trade and Industry	Permanent Secretary
Mr.	Claus-Peter	Hager	Namibia	EC delegation to Namibia	Programme officer - rural development
Mr.	Klaus	Schade	Namibia	Namibian Economic Policy Research Unit (NEPRU)	Principal Researcher
Ms.	Susan-Marie	Lewis	Namibia	National Planning Commission	Director Mobilisation, management and coordination ODA
Mr.	Pieter	de Wet	Namibia	Namibia Development Corporation	Agriculture and industrial dev.
Ms	Dlamini	Letsiwe	Namibia	Southern African Customs Union (SACU)	Policy Development Coordinator
Mr.	Heinrich Mihe	Gaomab	Namibia	Namibian Competition Commission	Secretary & CEO
Mr.	Tinarwo Vincent	Sahanga	Namibia	SJV Technical Systems	Project Manager Fresh Produce markets development programme
Dr.	John	Purchase	South Africa	Agricultural Business Chamber (ABC)	CEO
Mrs.	Stéphanie	Aubin	South Africa	SACAU	Policy Development Officer
Mr.	Ishmael D.	Sunga	South Africa	The Southern African Confederation of Agricultural Unions (SACAU)	CEO
Ms.	Fhumulani Mathildah	Mashau	South Africa	The Southern African Confederation of Agricultural Unions (SACAU)	Regional Standards Coordinator
Dr.	Tina	Dooley-Jones	South Africa	USAID/Southern Africa	Chief, Regional Economic Growth Office
Mr.	Jeremy	Rossouw	South Africa	New Frontier Investments LTD	Consultant
Mr .	Moses	Vilakati	Swaziland	Swaziland Water and Agriculture Development Enterprise (SWADE) and Milk Board (Chair)	Project Director
Dr.	Mike	Matsebula	Swaziland	Swaziland Sugar Association	CEO
Mr.	Saidi	Sulemani	Tanzania	ACT – Agricultural Council of Tanzania	Programme Manager_Networking
Ms.	Jacqueline	Mkindi	Tanzania	Tanzania Horticultural Association (TAHA)	Executive Director
Ms.	Alexandra	Beijers	The Netherlands	Namibian Competition Commission	Executive Assistant
Mr.	Lutangu Fredrick	Mukuti	Zambia	ACTESA/COMESA	Market Analyst