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Capacity Building for Pro-Poor Trade: Learning from the Limitations in Current Models

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1. *Introduction*

The present study is a paper commissioned for the 2005 Human Development Report. It describes and evaluates the use of trade related development assistance (TRDA) in three sectors in Africa, namely Ghanaian pineapples, Kenyan horticulture and Senegalese fish. Furthermore, it discusses broader lessons on TRDA included in the existing stock of evaluations of various donor programmes in the field of TRDA in Africa and globally. The study evaluates the *diagnosis* performed by donors and agencies involved in TRDA activities as well as the *response* to that diagnosis. Diagnosis is understood as the identification of the needs of TRDA and response is interpreted as how the diagnosis results in TRDA supply. Given the limited resources available for the study, issues like *effectiveness* and *efficiency* of specific TRDA efforts in the three case studies are not the subject of any rigorous analysis and are touched upon only in passing.

The structure of the paper is the following. Section 2 provides a short overview of the general problems associated with TRDA. African supply capacity problems is the central focus of the paper, so an overview of these are given in section 3. Section 4 contains the case studies. For each case study, the development of the industry under scrutiny is sketched out and the main TRDA activities are described. Finally, section 5 draws the conclusions on the role that TRDA have played in the three cases in particular and the role it can and should play in Africa in general.

2. *A short overview of the problems associated with TRDA*

The Uruguay Round marked a turn-around for the participation of developing countries. While the overall participation was low if compared with their numbers or weight of the world's population it was at a historically high level. The increased participation was soon to be followed by increased concern and policy analysis of developing countries' potential to gain from increased market openings offered by the Uruguay Round. A consensus soon emerged that while in theory WTO sponsored liberalisation would offer benefits to developing countries, many of them would in practice face great difficulties in exploiting them. At the political level, the response soon emerged with the branding of a new type of development assistance, known as

Trade-Related Development Assistance (TRDA)¹. During the later half of the 1990s, TRDA quickly filtered into individual donor countries' assistance programmes, and international organisations tuned in at the new demand, both by joining forces, most notably by creating the Integrated Framework (IF) in 1997 and the Joint Integrated Technical Assistance Programme (JITAP) in 1998, and by designing individual assistance programmes as well. By now virtually all national donor agencies are involved in TRDA as are the major multilateral ones having trade as a part of their working programmes, including the World Bank, the IMF, UNCTAD, FAO, OECD, UNIDO, UNDP, and the WTO itself.

While often presented as an innovation of the Uruguay Round, TRDA is building on the history of private sector donor assistance since the 1960s as well as on the experiences of the era of structural adjustment in the 1980s and 1990s. There are two main concerns. The first addressed *trade policy*. Here the aim is institutional capacity building targeting the capacity to negotiate and implement trade agreements. The second targets *trade development* and has to do with supply side constraints. The statistical recording of development aid according to these two purposes is new but is now undertaken by the Development Assistant Committee (DAC) of the OECD^{2 3}.

In 2001 and 2002, donors committed a yearly average of US\$ 719 million to cover trade policy activities, and a further yearly average of US\$ 1,408 million to activities in trade development (WTO/OECD 2003). Put together these figures amounted to 4.8% of total aid commitments, which is roughly equivalent to the share going to population programmes and more than what is allocated to basic education or basic health. Least Developed Countries (LDCs) took around 20% of the commitments in trade policy and regulations and 30% of trade development activities⁴.

In their monitoring of TRDA, DAC acknowledges the difficulties of clearly defining what constitute assistance to trade and what does not. This is most problematic regarding assistance to infrastructure necessary to trade, like transport, storage, communications and energy, which in 2001 and 2002 was responsible for 20% of total

¹ Not surprisingly, there is not complete agreement of how to label this. Other terms used include trade-related technical assistance (TRTA) or trade-related capacity-building (TRCB). The OECD combines the latter two into TRTA/CB in their aid statistics.

² DAC defines two types of TRDA: *Trade policy and regulations* covers support to aid recipients' effective participation in multilateral trade negotiations, analysis and implementation of multilateral trade agreements, trade policy mainstreaming and technical standards, trade facilitation including tariff structures and customs regimes, support to regional trade arrangements and human resources development in trade. *Trade development* covers business development and activities aimed at improving the business climate, access to trade finance, and trade promotion in the productive sectors (agriculture, forestry, fishing, industry, mining, tourism, services), including at the institutional and enterprise level.

³ The work of the DAC in monitoring and assessing TRDA is documented at http://www.oecd.org/department/0,2688,en_2649_34665_1_1_1_1_1,00.html. A database has been built collecting for now 39 national and international donors' information on their activities in this field and may be accessed at <http://tcdb.wto.org>. The OECD and the WTO has issued two joint reports on TRDA, the first one published in November/December 2002 may be accessed at http://tcdb.wto.org/publish/dbreport_e.pdf while the second published July 2003 can be found at <http://www.oecd.org/dataoecd/27/4/11422694.pdf>.

⁴ This should be compared to LDCs share of total aid of around 30% (WTO/OECD 2003).

aid commitments equivalent to a yearly average of US\$ 8.1 billion. Such support is not counted as TRDA although a part of it is clearly supportive of trade.

Prior to the Uruguay Round, donor assistance to trade was common although less high-profile and not put under one common heading as with today's TRDA. Earlier assistance included assistance to export marketing and to trade facilitation undertaken since the 1960s and to trade liberalisation notably undertaken since the introduction of Structural Adjustment Programmes in the early 1980s. Such activities would mostly fall under what is viewed today as trade development. The novelty of TRDA since the conclusion of the Uruguay Round is lying in its inclusion of activities in the trade policy category as well as in the increased volume of total assistance. Furthermore, two high profile multilateral initiatives have been created, namely the IF and JITAP. The latter development is innovative in its attempt to use a common analytical framework and to coordinate the activities and approaches of international agencies. Lately, there has also been serious attempts to integrate TRDA with other development activities notably within the framework of the Poverty Reduction Strategy Papers (PRSPs) led by the World Bank. This latter development is often dubbed as 'mainstreaming' trade. From a political perspective, the novelty consists of the clear link with multilateral trade negotiations as well as the general high profile of TRDA.

To date, a number of reviews exists of TRDA activities (ADE 2004; Bonaglia and Fukasaku 2002; De Silva and Weston 2002; Luke 2002; OECD 1997, 2003, Prowse 2002; Solignac Lecomte 2000a, 2000b, 2001, 2003; UNCTAD 2002; Van Hove and Solignac Lecomte 1999; WTO 2000, 2003a; WTO/OECD 2002, 2003). The reviews point out a number of problematic issues with TRDA which will be discussed shortly below.

▪ *The balance between trade policy and trade development activities*

While trade development is as old an objective for aid as aid itself, aid for trade policy purposes is new. The much focus on institutional WTO-related issues like the capacity to participate in negotiations and the design of trade policies in developing countries risk to divert attention from the other part of the coin, trade development. An example of this is the JITAP which has been criticised notably in its early days (pre-2000) to focus exclusively on trade policy Luke (2002). The problem of balance is particularly acute for African countries. Simulations of the effects of the Uruguay Round and of the Doha Round to be concluded show that African countries may fare much worse than the average developing countries (Bouet et al. 2004). This should lead to caution about the potential positive effects of trade policy activities as most of Africa's problems is not about negotiating and implementing the right set of rules. Africa's problem is mainly on the supply side (Bonaglia and Fukasaku 2002) where trade development is needed.

▪ *Lack of coordination*

The Integrated Framework was born at a High-Level Meeting in Geneva in October 1997. It goes without saying that TRDA was conceived as being an integrated effort to help LDCs and other countries benefit from the global trading system. Coordination between donors and international agencies has nevertheless been very difficult. Both the IF and JITAP had to be revamped a few years after the beginning due to the lack of coordination among other things (WTO 2000, 2003a; De Silva and Weston 2002).

▪ *The risk of biased aid*

TRDA is different from other types of aid. A donor offers assistance based on his development objectives, while a trade negotiator offers concession based on his commercial motives. When we discuss TRDA the donor and the trade negotiator are identical which may lead to problems of identifying which side of the negotiation table the TRDA donor is on (Solignac Lecomte 2001, 2003).

▪ *The use of TRDA in trade negotiations*

In contrast to other types of aid, TRDA is actively used in political negotiations, e.g. trade negotiations. Despite the much hype about the development orientation of the so-called Doha Development Round it is quite difficult to offer meaningful trade concessions to a number of developing countries, mostly LDCs and African countries. TRDA is often presented as an alternative to meaningful trade concessions. This puts great pressure on providing TRDA and may lead to neglect of the issue of the quality of the TRDA provided. Furthermore, the use of TRDA as a political argument creates a new logic of trade negotiations. In the past, any successful trade agreement had to be based on than horse trading leading to the sharing of benefits, but when TRDA on the negotiation table, it is possible to see all benefits go to one side with a promise then of TRDA to the losing side. TRDA is then supposed to play a role of making benefits possible by trade development or to compensate the losers.

▪ *Absorption capacity*

While TRDA is innovative in some aspects in others it suffers from the same problems as does traditional development assistance. One of these is the absorption capacity of recipients. There is reason to believe that this problem may be acute for TRDA. Trade policy activities are risking to overburden weak administration struggling to deal with a large number of issues including non-trade related ones which may be wrongly put off side. Regarding trade development, the number of actors that may be potentially targetted is most often greater, nevertheless experience tell us that absorption capacity of African industries is often low.

3. A short overview of African supply capacity problems

Africa struggles with two separate types of capacity problems as emphasised above. First, the capacity to design trade policy both internationally and domestically. Second, the capacity to trade. This section deals with the latter.

A successful completion of the Doha Round may give increased export incentives to African farmers. This is not the first time this has happened. Rather it is best seen as one step on the trail towards market-based economies that Africa has followed since the early 1980s. The onset of Structural Adjustment Programmes market the beginning of domestic liberalisation, while the Uruguay Round lay the groundrules for the global liberalisation that will have to be completed by the Doha Round. Both types of liberalisation promises better prices and increased market access to farmers in Africa. It is therefore reasonable to take a look at how African farmers responded to similar incentives offered earlier in the liberalisation process. Unfortunately, learning from history should leave a few raised eyebrows.

The supply response has been slow and limited. It has become common wisdom to talk about 'supply-side constraints' and it is not difficult to find examples of these in the literature (e.g. Kydd and Dorward 2003). Below a non-exhaustive list of the most important ones is present and the individual constraints discussed briefly.

▪ *Poorly developed rural institutions*

The continent-wide liberalisation of agricultural supply chains⁵ increased the demand for rural institutions to provide inputs and credit, to link farmers with markets, to assure economic coordination and to reduce transaction costs. It is therefore not surprising that the supply response has been low (Dorward and Kydd 2003). One example is the liberalisation of the cotton sector (Poulton et al. 2004). The withdrawal of the state led to more competition in cotton industries but greater competition is not always linked to better performance. Liberalised cotton industries have often failed to develop systems for maintaining cotton quality and for providing inputs and credit. This has harmed performance especially in industries with many small players.

▪ *Low level of investment in physical infrastructure and social services*

Exports in general and export agriculture in particular is dependent on physical infrastructure. In many African countries, the access to market is limited by poor feeder roads and access to international market is furthermore complicated by poorly functioning ports and airports. But the problems doesn't stop with transport infrastructure. Communication and storage facilities are often deficient and agriculture is held back by the lack of irrigation facilities (Amani 2004). Social services targeting improved education and health levels are part of the social infrastructure. Most of Africa's farmers remain semi-literate at best. The capacity to participate in modern food trade require both an ability to keep records at the farm level and to keep the costs of complying with sanitary standards low. The latter depend partly on the initial level of basic sanitation and hygiene.

▪ *Agrarian structure*

African agriculture is heavily dominated by traditional smallholder farming. Furthermore, traditions of land ownership often prevents rapid structural change. The existence of many tiny and widely scattered smallholder amplifies the problems of rural institutions and of the lack of physical infrastructure. Recent developments in sectors like horticulture has demonstrated that the agrarian structure may constitute a comparative disadvantage of African agriculture in international trade (Jensen 2004; Dolan and Humphrey 2000; Barrett et al. 1999).

▪ *Domination of political system by vested interests*

African governments are notoriously weak and susceptible to pressure from interest groups. This leads to a poor economic policy environment. Part of the problem is the

⁵ One should interpret the concept of 'liberalisation' with caution here. The concept normally implies an intentional process of withdrawal of the state involving real choices of alternative policies. In many African countries, the liberalisation process was not much of a designed process rather it was an ad hoc response to rapidly deteriorating economic conditions and when donors refused to support alternative developments the choices available quickly narrowed down to one: Liberalisation. In many supply chains, when the marketing boards went bankrupt, the chain were in essence 'liberalised'. In some cases, it is appropriate to look upon the liberalisation process as an example of 'liberalisation by default'.

heritage of many African political systems that developed on a background of colonialism and often adhering to socialist principles. In many countries there was strong suspicion of the private sector and its links with colonial interests. There was a strong belief in the need and capacity of the state to intervene to secure development objectives. This led to a neglect of the potential of the private sector including smallholder agriculture and the promotion of large-scale agriculture. The design of large-scale public intervention was in practice an open door to vested interest that led to the derailing of public efforts to achieve development. The first decades after independence failed to produce an effective government sector. Marketing boards and similar institutions in many instances provided inputs and credit (often not recovered) to farmers most often backed by donors. These institutions were more often than not highly inefficient and failed to develop into sustainable solutions to the farmers' problems of linking up with the world economy.

▪ *Lack of public capacity to regulate and provide services*

African export development in agriculture has been focused on bulk export commodities for which public intervention was not crucial. Unfortunately, this also led to a highly concentrated export structure and subsequently a strong need for export diversification. Diversification will have to take into place into products for which the demand for effective public regulation and service provision is higher (Jensen 2004). Fish exports to the EU is plain impossible without a minimum level of public oversight capacity to enforce food safety standards. This is likely to put African countries in a disadvantaged position vis-à-vis other developing countries such as middle income countries in Asia and Latin America.

▪ *Lack of technology to transform traditional agriculture*

There is a potential for increasing smallholder income through new technology. But then smallholder farmers would have to have access to new technology at prices they can pay with the increased productivity. Farmers must also have access to inputs and to output markets. Funding for research and development focusing on problems faced by the African farmer is small. New technology is basically transferred to farmers through extension and advisory services which have been cut back in Africa.

▪ *Widespread corruption*

Corruption is part of the problem when discussing the ineffectiveness of the public sector. Corruption is not constrained to the public sector but may also be part of the everyday life of private companies. Corruption hinders the capacity to trade at low costs. Corruption introduces 'user fees' for a large spectrum of services thereby increasing costs above marginal production costs. Furthermore, corruption creates distorted incentives towards inefficiency.

There are two things to emphasise about African supply side constraints. First, while the deluge of structural adjustment was based on the belief that capacity problems was mainly a public sector phenomenon, the lesson of the last two decades have been the rather depressing one that the private sectors suffers too. Second, the depth of the constraints, that is the degree to which problems are structural and therefore likely to change only slowly, varies across the different problems. The latter characteristic has

important implications for the opportunities of TRDA to play a capacity building role and the speed with which capacity may be build.

4. Case studies: Kenyan horticulture, Ghanaian pineapple and Senegalese fish

The case studies review the past development of the export industries under scrutiny as well as the major constraints to increased exports. Subsequently, TRDA activities are analysed. The identification of TRDA activities is an issue in itself. There are several definitions of what TRDA actually is and the most accepted one, the one provided by the OECD in their statistical recording, is new. Many past interventions were designed or implemented in the period preceeding the introduction of formal definitions (basically before 2000). The TRDA activities discussed here have therefore been selected on the basis of having the potential to impact trade in the given sector significantly. The case study approach yields a clear bias in the analysis. TRDA activites within the OECD category of 'trade development' (as opposed to 'trade policy and regulation') is favoured. This is because support for the negotiation and implementation of trade agreements has a broad rather than sector-specific impact and such support is unlikely to have yielded any effects as of today. Support for trade rules is rather new and has only been provided any major scale since around 2000.

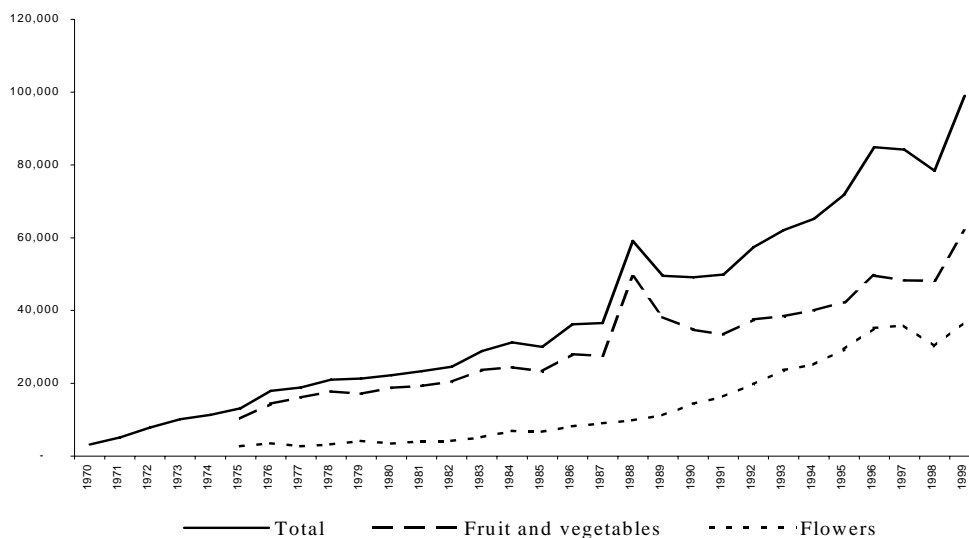
4.1 A case study of horticulture in Kenya

4.1.1 Development of the industry

Kenya is a country where the production of fresh fruit and vegetables for export has been in constant development since the late 1950s. Production has mainly evolved without the support of the state and some analysts have even cited this fact as a key component of the Kenyan success story in fresh fruit and vegetables (Jaffee 1995). Today, Kenya exports about 110 different fresh fruit and vegetables. There is also a thriving export of cut flowers. Only a handful of products dominates. The fruits avocados, mangoes, passion fruit and pineapple and the vegetables green beans, snow and snap peas as well as a group of tropical vegetables destined for ethnic markets in Western Europe commonly known as Asian vegetables account for three quarters of exports by volume. The remaining products are mostly a vast range of different vegetables. The growth of the industry was slow in the 1960s but exploded during the 1970s. In 1975, the exports of fruits and vegetables including a few processed products passed 10,000 tons and this volume was six times as high by 1999. A vibrant cut flower industry developed alongside the fresh produce exports as can be seen from figure 1.

Most of the Kenyan exports goes to the UK, Holland, France and Germany with UK being by far the biggest market for vegetables. This is demonstrated in table 1. For fruits, the picture is more complex with passion fruit mainly going to the UK, avocado mainly going to Holland and France and mango going almost totally to the Middle East. The concentration of products in a very small number of markets imply that the developments in these markets become crucial. In Europe in general and in the UK in particular, large supermarket chains play a dominant role in the retail of fresh produce. In the UK, the supermarkets now sell around 70% of fresh produce while the remaining

Figure 1. Kenyan horticultural exports, 1970-1999 (tons)



Note: The figure covers both tropical nuts and fresh and processed horticultural products. Not all processed products are included though and tropical nuts are of negligible importance until the late 1990s. Source: HCDA trade statistics.

30% is channelled through wholesale markets (Barrett et al. 1999). In general, the supermarkets have a similar share of trade in Northern Europe while they are much less dominant in Southern Europe where much fresh produce is still sold on traditional markets and through independent greengroceries. France is somewhere in the middle. Everywhere, though, supermarkets are gaining market shares.

The industry is organised around two sets of actors, the producers and the exporters. The concentration of exporters in Kenyan horticulture is quite low compared to other horticultural industries. There is about 400 exporters active, although no more than half of these are active at the same time. About half the exporters can be said to be so-called 'briefcase exporters', that is part-time exporters who go in and out of the market according to the market situation, therefore only being present at market peaks such as Mother's Day and Christmas for flowers and the European winter months for temperate vegetables. These exporters have no structures in place in the sense that they do not have farms on their own, nor do they have permanent trading structures like lorries and coldstores, but rent transport vehicles and space in coldstores when they come about produce. While the number of these exporters is large, the amount they export is very small, somewhere between 2-10%. About 90% of exports is done by constant year-round exporters. Most of these have their own farms and supplement the export volume by buying from other farmers either large or small-scale commercial farmers or smallholders. A few exporters do not source from other farms than their own.

Table 1. Markets for Kenyan fresh horticultural exports (percent of exported volume)

	UK	Holland	France	Germany	Rest of Europe	Middle East	South Africa	Total
Total fresh horticulture	35	33	10	7	3	7	5	100
Cut flowers	16	65	1	9	3	4	1	100
Green beans	56	0	29	3	3	0	10	100
Snow and snap peas	73	9	5	7	3	0	3	100
Asian vegetables	66	1	4	12	1	0	16	100
Avocado	1	46	32	9	2	7	3	100
Mango	4	1	1	1	1	92	1	100
Passion fruit	49	18	16	6	9	1	0	100

Note: The figures for the rest of Europe covers Belgium, Sweden, Italy and Switzerland. The figures for the Middle East also includes some minimal volumes for other destinations. Source: HCDA Trade Statistics.

The government continued the policy of no interference after independence although a Horticultural Crops Development Authority (HCDA) was set up in 1967. In contrast to government policy for most other export crops, the HCDA was provided with only a vague set of powers and was primarily acting as the sector's overall regulatory body. Research and extension activities were rare and by 1979 only 15-20 horticultural advisers were available serving mainly large commercial farmers. The HCDA and other government officials often voiced concerns over bottleneck problems in the crucial area of airfreight but often government initiatives did more to worsen this problem than to solve it. Some government initiatives did have a lasting impact on the sector like the establishment of a avocado seedling propagation project undertaken at the National Horticultural Research Station in the late 1970s which effectively although contrary to the initial intentions created the base of later exports of avocado. Nevertheless the development of fresh horticultural exports has been and is by and large the exclusive domain of private entrepreneurs.

The Kenyan horticultural sector appear strong and still growing today but nevertheless face a series of challenges. The most commonly discussed one is the introduction of strict food safety standards in key European markets (Barrett et al. 1999; Dolan and Humphrey 2000; Jaffee 2003; Jensen 2004) but other challenges such as increased competition from newcomers to the fresh produce trade, poor infrastructure, and relatively high airfreight charges continue to trouble the sector.

Before the 1990s there were only few and insignificant food safety requirements that the Kenyan fresh produce sector had to respect in order to secure market access. Such food safety requirements included EU maximum pesticide residue legislation but compliance was easy and Kenyan exports were affected very rarely by such rules. Since then four major factors have either already changed the demands put forward to Kenyan fresh fruit and vegetables or are likely to do so in the near future. These factors are (1) the entry into force of the Food Safety Act in the United Kingdom in 1991, (2) the increasing role played by private quality assurance standards in the procurement strategies by European especially British supermarkets, (3) the harmonisation program of pesticide legislation in the EU and (4) finally the reform of EU food safety policies

undertaken as a response to the outbreak of a series of major food safety crises in the EU during the 1990s.

In 1990 the United Kingdom adopted a new piece of food safety legislation entitled the Food Safety Act which involved a considerable change in British food safety policy and the legislation came into force on 1 January 1991. The Food Safety Act is a general food law which among other things changed the legal responsibility that a food trader has in the event of a food safety crisis. It was required that a food producer or trader exercised "due diligence" in the production and handling of food (Hobbs and Kerr 1992). The due diligence requirement means that a food trader must be able to demonstrate that he has been proactive in ensuring that not only the food they handle directly but also the food they receive from suppliers conform to the provisions of the Food Safety Act. A food importing company must know where and how the products handled have been produced and handled and have the necessary documentation to prove it. This includes setting up monitoring schemes of how the company itself handles food as well as how the food has been handled and produced by upstream companies. Under the new law, traders may be held accountable for food safety problems in products under their control even if the problem was not introduced by them but by some upstream agent such as the farmer or the exporter. The due diligence requirements made the food law of the UK the most demanding in Europe regarding the information flow that had to accompany the flow of products. The large demands on monitoring and documentation have translated into a general requirement for traceability in the production and trade of fresh fruit and vegetables for export in Kenya. An exporter must know the location of production as well as the conditions under which the product has been produced and traded.

Simultaneously, the EU has been tightening its pesticide policy. It has introduced new and lower maximum residue levels (MRLs) and in some cases has even banned some chemicals completely. Furthermore, private standards have grown in importance as supermarkets have increased their strength in EU retail markets, notably in the UK which is the main market for Kenya. UK supermarkets have their own codes of conduct including rules on traceability, food hygiene and pesticide residues which they inform by visiting Kenyan farms 2-4 times a year (Jaffee 2003; Jensen 2004). Continental supermarkets are less stringent on food safety but everybody in the industry expect this to change in the near future (Jensen 2004).

The result of the increased importance of food safety markets have been a process of marginalisation of smallholders in key markets (Barrett et al. 1999; Dolan and Humphrey 2000; Jaffee 2003; Jensen 2004). Dolan and Humphrey 2000 estimated that the sourcing from smallholders of four major exporters that cater to UK supermarkets went down from 18 percent in 1998 to 11 percent in 2001. The smallholders that do cling on succeed due to their incorporation into strongly coordinated contract schemes with large exporters. The exporters carefully pick the more resourceful smaller growers (often small-scale commercial farmers) to avoid problems of granting inputs on credit. This is a radical change in the industry since the 1980s were green beans were procured through open markets which allowed traditional smallholders to participate. Today these farmers are gone from the growing supermarket trade.

The industry as such continues to grow and there is an important debate about the importance for Kenya of the decline of smallholder participation. Recent papers from Humphrey, McCulloch, and Ota (2004) and McCulloch and Ota (2002) claim that despite the obvious loss to smallholders since the early 1990s, it is not unlikely that the country as such has gained as the losses to smallholders have been compensated by industry-wide growth in general and employment creation in large farms and processing facilities in particular.

A long time observer and analyst of Kenyan horticulture, senior economist Steven Jaffee from the World Bank even believes that the appearance of food safety requirements on the market has saved the Kenyan industry from strong competitive pressure from newcomers on the world market for fresh produce. In a recent paper, Steven Jaffee concludes:

“Kenya’s historical source of comparative advantage has been its capacity to produce high-quality produce on a year-round basis. Its main competitors had more seasonally restricted supply patterns and/or were not providing a product with consistent quality. A range of competitors have recently closed the seasonality advantage and there is a perception in the market that some competitors have come to match or even exceed Kenyan quality for several products. Nevertheless, the Kenyan industry continues to adjust and to grow. It is somewhat ironic that a relatively low income and low wage country such as Kenya now finds its competitive advantage in the most sophisticated segments of the European fresh vegetable market. Kenya’s trade is increasingly gravitating precisely to those segments in the market that are most demanding in terms of SPS and other standards. Its future growth will depend upon its ability to maintain those standards, the pace of growth in this market segment within the UK and the extent to which demand for value-added and, indeed, ‘high-care’ chilled vegetable consumer products can be fostered in other European markets.

Rather than posing an imminent threat to the maintenance of Kenya’s fresh vegetable trade, the ratcheting up of standards—led by private sector approaches among European firms—has actually provided a lifeline to the Kenyan industry at a time of increased competition and relatively flat demand for the earlier generation of specialty vegetables for which Kenya was one of the leading suppliers. Several of Kenya’s main competitors seem, in recent years, to have scaled the logistical and quality control barriers to become reliable suppliers of specialty vegetables. Yet, elements of the Kenyan industry have moved to the next phase of business development—one that entails seemingly significant financial and technical barriers to entry” (Jaffee 2003, pp. 33-34).

4.1.2 TRDA activities

- *The Horticultural Produce Handling Facilities project*

By far the most ambitious TRDA undertaken in Kenyan horticulture ever is a project sponsored by the Japan Bank for International Cooperation (JBIC) entitled “the Horticultural Produce Handling Facilities project”. The project aimed at establishing seven local satellite depots located in the main growing areas and linked to a large auction house facility in Nairobi managed by the HCDA. The original idea was that the

HCDA should source supply from smallholders organised in farmers' groups, process the produce at the satellite depots and auction it off to exporters in the auction in Nairobi. The project has failed dramatically. The whole approach soon showed to be infeasible reportedly due to the requirements of the major companies for assured and traceable supplies. In October 2002, the facility was handling some 30 tons per week compared with an estimated break-even of 289 tons per week (Jaffee 2003)⁶. The project appears to have targetted traditional marketing problems of physical infrastructure such as cooling facilities and warehouse facilities much more heavily than more recent and more important challenges such as traceability and pesticide use. All in all, the project appear to have failed mainly due to lack of knowledge of the main challenges facing the smallholders in particular and Kenyan horticulture in general coupled with poor planning.

The role of the HCDA in the project was also unclear. No doubt, the implementation of the project led to the resurrection of the agency that was otherwise suffering from financial difficulties. The project is a bit of an anomaly in African export agriculture. A decade and a half of structural adjustment programmes and liberalisation has made most marketing boards and similar institutions of heavy government involvement vanish on the continent. Nevertheless, the JBIC project tightened the grib of the HCDA on the horticultural industry. In effect, the project attempted to make the HCDA a key player in domestic marketing actively involved in crop procurement, and stopping short only of doing exporting itself. A consultancy report wonders at the fact that: *"this would have been an appropriate programme 20 years ago to stimulate production and assists the exporters access higher quality material, its purpose is less clear at present as privately owned cold rooms and those owned by the airlines and shipping agents are already in place"* (ECI 2001, p. 14).

A proposed new Horticultural Bill appears to go in the same direction. The formulation of the new Horticultural Bill was supported by USAID (Opondo undated). The Bill seeks to expand the role of the HCDA to include among other things a much broader responsibility for the welfare of the smallholder farming. Finance of HCDA is proposed to consist of a one percent levy on horticultural turnover. The Bill was opposed succesfully by the well-organised Kenyan horticultural export industry and is unlikely to become adopted in the future.

Overall, it should be stated that the JBIC funded project has been so special in the current African context in both its objectives and design that it provides only limited lessons for the potential of TRDA for Africa.

⁶ The project has suffered from very severe deficiencies in planning. While I was doing fieldwork on the Kenyan horticultural sector in September-November 2000, I was initially unaware of this project which appeared to be a secret in the industry despite the fact that it was going to be operational only six months later. While I was informed about the project during a visit to the HCDA, I failed to meet any exporter who was aware of the project. Nevertheless, the project was designed to rely on exporters to buy the produce at the central auction. Project documents reveal that few if any of the major exporters were ever involved in the design of the project.

▪ *FPEAK*

The Fresh Produce Exporters Association (FPEAK) is the main association representing fruit and vegetable exporters. Historically, it has mainly served the interests of small and medium-sized exporters, while the largest have either preferred to lobby on their own or worked their influence through the Kenyan Flower Council as most of the largest exporters produce flowers too. The new HCDA/JBIC project and the proposed new horticultural law has however made large exporters interested in joining too (ECI 2001). FPEAK's main source of finance has until recently been USAID. It has undertaken both traditional industry coordination functions as well as provided extension services and run traditional development projects mainly focused on linking smallholders to exporters by establishing farmers' groups. The support to farmers' groups have consistent in solving their input and credit problems and more recently to assure compliance with MRLs and secure traceability. While the assistance to smallholders and exporters are generally viewed favourably, the organisation itself has failed to develop in a sustainable way (ECI 2001). As funding from USAID has disappeared and FPEAK is limited to seek finance from a small cess of five cents per kg exported, the future of the organisation is very uncertain.

▪ *Pesticide Initiative Programme*

The Pesticide Initiative Programme (PIP) was launched in 2001 under the auspices of the COLEACP, an EU funded organisation that promotes horticultural trade from ACP countries⁷. One component of PIP, the 'Good Company Practices' component, involves the provision of assistance to individual companies within a number of ACP countries in order to design or improve food safety control and risk management systems and to provide technical assistance and training to company staff and smallholder outgrowers. The initiative is demand-driven with sub-projects being negotiated with individual export companies with the support tailored to the specific conditions, goals, and capacities of each company.

In Kenya, PIP was working with eleven companies in 2002, with six sub-projects currently being set up and the remaining five at an earlier stage of design. Most of Kenya's larger exporters have applied for support under the program and so have several smaller companies. The sub-projects are funded through a cost-sharing arrangement. For sub-projects with relatively large companies, PIP will cover up to 50 percent of the estimated costs, typically to finance consultants to provide training or assistance in management systems design. For smaller companies, PIP might finance upwards of 70 percent of the estimated sub-project costs. Most projects will be implemented over a two or three year period. In Kenya, individual projects - taking account both of the PIP contribution and the resource and staff time contributions of the companies themselves, generally range in size from range from \$40,000 to over \$300,000. For some companies, the sub-projects focus predominantly upon (smallholder) farmer training and the (re-)design of systems for traceability. For others, the sub-projects also include capability building and other measures to strengthen food safety management at the packhouse level and the broader supply chain. This all depends on the current status of company operations. Implementation is just getting under way. While it is too soon to predict the outcomes, the types of sub-projects being designed would appear to be an excellent opportunity for exporters to maintain or even expand the scope of their smallholder procurement arrangements and to be in a position to

⁷ COLEACP is an acronym for the 'Europe-Africa-Caribbean-Pacific Liaison Committee'. For more information on this organisation, see www.coleacp.org.

utilize this produce in all of their market sales, including to the most demanding clients (Jaffee 2003).

▪ *The Rural Enterprise Agri-Business Promotion Project*

The Rural Enterprise Agri-Business Promotion Project (REAP) was initiated in early 2000 by the NGO 'Care'. It is supported by a number of donors including IFAD, CIDA and Care USA. The project evolved from a joint agribusiness project proposal developed by Care Kenya in collaboration with, among others, FPEAK, HCDA and USAID who are all key players in the sector.

The project is implemented in an area South-East of Nairobi known as greater Kibwezi. The area produces 30% of Asian vegetables. Horticultural production is carried out in clusters of smallholder farmers concentrated along rivers in the area. REAP labels itself as a 'Business oriented model'. It organises smallholders into groups. The first two farmers' groups in the REAP project were groups that emanated from a small growers scheme that was run by FPEAK and USAID. Members are preferably full time farmers with 1.5 acres of land or less. The groups are linked up with exporters as well as input and credit suppliers and provide extension services. The farmers' groups consists of 30-50 members growing mainly Asian vegetables for export. The farms are run by a farm manager who is employed by the farmers and reports to a board of farmers working initially under the advice of REAP.

▪ *The Horticulture Development Centre*

The Horticulture Development Centre (HDC) is a USAID-funded programme managed by the agribusiness firm Fintrac Inc. The programme was established in October 2003 and is planned to run for a four-year period. The objective is to increase smallholders incomes through crop diversification, improvements in production and postharvest technologies and market linkages. The project currently targets smallholder production for both the export and the local market of passion fruit, vanilla, spices, flowers, fruit and local market vegetables. It also trains smallholders in various standards such as limits on pesticide residues and the private standard EUREPGAP⁸.

The EUREPGAP standard is an invention of UK and Dutch supermarkets. It has become very important in Kenya due to the dependence on the UK market. The HDC states that it will provide training for 5,000 growers organised in 50 associations. Ten association will be EUREPGAP certified. Recent estimation by the HDC reveals that that the cost to certify the average smallholder groups of 45 growers will be at least \$ 20,000. This means that the cost to the industry of certifying 50,000 smallholders would be no less than \$ 20 million. Work is currently in cooperation with three major exporters to certify outgrowers over the next six months and validate the cost estimates (HDC 2004).

⁸ For more information on EUREPGAP than provided here, see www.eurep.org.

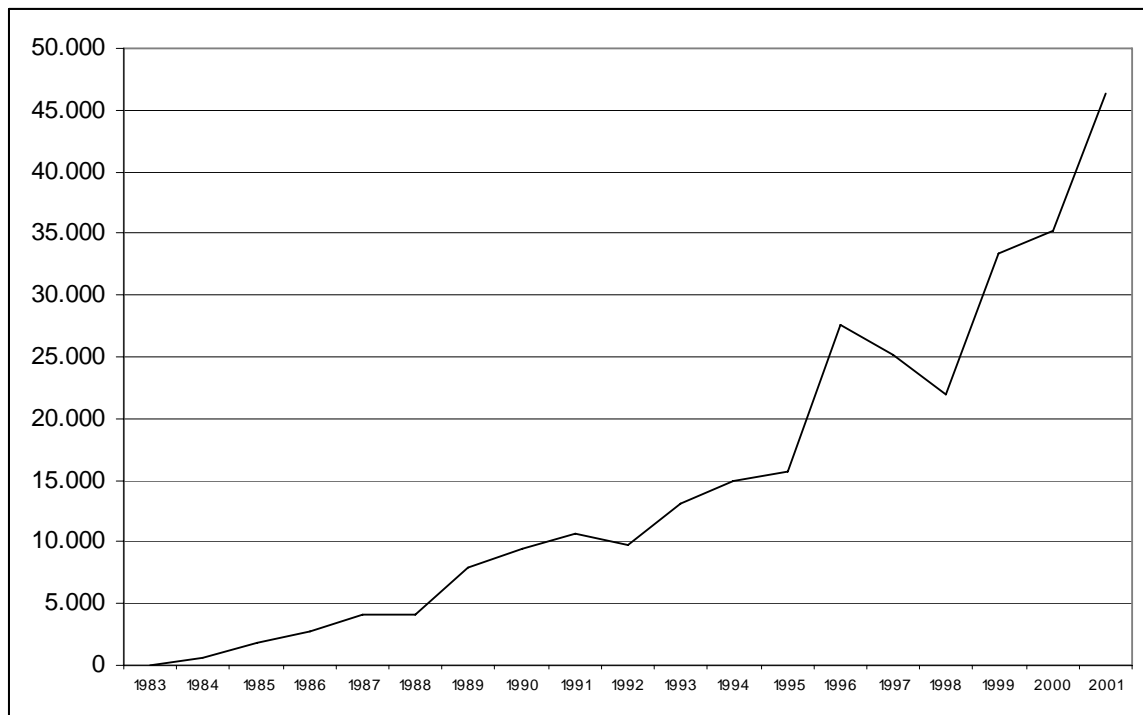
4.2 A case study of pineapple in Ghana

4.2.1 Development of the industry

Pineapples are generally seen as a plantation crop suitable for mechanisation and industrialised organisation of production (Jaffee 1995, 1994). In Ghana this is not so. The Ghanaian pineapple industry is partly based on smallholders who are responsible for about 45 percent of exports. The typical size of the land holding of these smallholders is 1 to 10 acres (Trienekens 2003). Yet the industry has developed into a success since the 1980s that provides valuable lessons on the opportunities and constraints faced by African smallholders in new export markets.

The industry started back in the 1980s with minor export volumes until the early 1990s where the 10,000 tons per year mark was passed. The industry continued to grow constantly as witnessed in figure 2 and today exports approach 50,000 tons and shows no sign of stopping. Yearly growth since the early 1990s has been in the region of 15 to 20 percent. It ought to be noted that the temporary decrease in 1998-1999 was due to drought. The main market is the EU, in which Ghana is the third largest exporter of fresh pineapples holding about 10 percent of the market and trailing Côte d'Ivoire and Costa Rica. The main markets within the EU is Germany followed by Italy.

Figure 2. Exports of fresh pineapples from Ghana in tons, 1983-2001



Source: Ghana Export Promotion Council.

The base of the industry is vertically integrated companies that both own farms and do exporting while supplementing their own-production with produce procured from both independent large farms and smallholders (Takane 2004). According to Obeng (1994) Ghanaian smallholders has a cost advantage over large farms presumably due to the low costs of family labour. She estimates that the production cost per ha for smallholders is 22 percent less than for large farms and furthermore suggests that the yield per ha on smaller farms is higher than on larger ones. On the other hand, the smallholders face a number of difficulties regarding the accessibility of inputs and credits and access to marketing services and they face high risk due to market coordination problems. Smallholders are generally residual suppliers to exporters due to these problems and often face difficulties of meeting set standards for quality. Nevertheless, producing for export is perceived as being preferable by many smallholders.

The continued development of the industry hinges on the opportunities of drawing in more land. This problem is widely regarded as crucial (World Bank 2001). Foreign investors desiring to set up pineapple plantations find it more than difficult to deal with the Byzantine maze of government agencies, traditional chiefs, and individuals involved in obtaining land. The process of getting access to land for large investors include lengthy delays, inflated crop damage assessments that increase fees to be paid by land uses, and various bribes to get things moving (World Bank 2001)⁹. The problems of setting up plantations could theoretically be circumvented by sourcing from smallholders. Currently the incorporation of smallholders into the supply chain is constrained by inadequate institutions to secure economic coordination, quality control and contract enforcement as well as lack of credit. While exporters do links smallholders to export markets, they do so by selecting the more resourcefull among them, that is the ones that have the capacity to finance their operations themselves, and by limiting the use of them so that they only undertake a function of residual suppliers. Any large-scale expansion of the industry would be made much easier if either foreign investors were given better terms of acquiring land and/or properly organised smallholder schemes could be made operational through institutional development. Concerns could be raised of the social effects of building a large-scale pineapple industry on foreign-owned plantation. Nevertheless, this question should be approached in a pragmatic way. In Ghana today, plantations and smallholders are mutually depending on each other with the plantations in need of the small guys for volume and the smallholders in need of the big guys as they need access to marketing services.

Futhermore, the state of rural infrastructure together with the quality of cold chains determine how far away from the existing production locations expansions could take place. The industry is also reported to suffer from high costs of handling pineapples at the airport and the port (World Bank 2001)¹⁰.

⁹ The difficulties of obtaining land for foreing investors is one of the major differences between the small Ghanaian industry and the much larger one in Côte d'Ivoire. In the latter country, land access is much easier (World Bank 2001). Or, more properly, was as the situation in Côte d'Ivoire has been rapidly detoriating since the first ever coup d'etat in December 1999 and the start of the civil war in September 2002.

¹⁰ In 2001, it was reported that the cost to the exporter for loading and shipping a pallet of pineapples from Ghana to Europe was 55 percent higher than in Côte d'Ivoire, \$ 178to 183 versus \$ 115 (World Bank 2001).

A relatively new issue of concern is the emergence of food safety concerns in the EU. The Ghanaian pineapple industry has of course been affected by these concerns as has the Kenyan fresh produce industry described above. During the 1990s, food safety concerns increased in the EU in general and in particular for fresh produce (Barrett et al. 1999, Chan and King 2000, Coulter, Millns and Tallontire 2000, Dolan and Humphrey 2000, Jaffee 2003, Jensen 2004). This development is already presenting new challenges to the Ghanaian pineapple industry. These challenges come in two forms.

The EU is currently revising the maximum residue levels of pesticides and similar farm chemicals permitted in fresh produce (Chan and King 2000). During this process the MRLs for a number of commonly applied chemicals be lowered considerably for certain products. In Ghana, this is mainly relevant for the chemical ethephon for which the MRL was lowered from 2 mg/kg to 0.5 mg/kg (Pesticide News 2001). This chemical is used to make the pineapple ripen properly and uniformly before harvest, a practice known as 'forcing'.

In July 2001, immediately after the new EU regulation came into force, a shipment of pineapples was recorded as exceeding the new MRL. As a response the pineapple exporters cancelled new shipments to Europe for two weeks to allow sufficient time to adjust forcing practices (Boselie and Muller 2002). Field trials was done to develop good agricultural practices that would secure the respect of the lower MRL. The implementation of the new spraying practices was made easier by the fact that forcing in Ghana is generally done by workers of the export companies once fruit purchase from a particular plot has been agreed with the farmer. As the forcing decision does not involve the smallholder a situation of asymmetric information is avoided that normally give rise to high transaction costs when doubts about pesticide residues exists. Seen in this light, the existing forcing practice is an effective private institution of economic coordination that has helped reduce negative impacts of the EU's current pesticide reform. No problem of ethephon use has been reported since July 2001.

Private food safety standards may present as large barriers as public ones. UK supermarkets have been setting standards over and above regulatory requirements by demanding tight control of chemical application and the introduction of traceability. Traceability is a requirement of documentation that proves where a given product originates from and often also how it has been handled in the various links in the supply chain. Other EU supermarkets are also implementing private standards although typically much less stringent ones (Jaffee 2003; Jensen 2004).

The introduction of traceability is particularly difficult in a smallholder-based sourcing system when the supply chains are long and there are hundreds if not thousands of individual suppliers with low skills of keeping records to monitor. So far, Ghana has not been met with this demand by most buyers as the market for Ghanaian pineapples is mainly continental Europe notably Germany which has some of the lowest private standards in the EU. However the recent development of processing of pineapples into fresh cut fruit salads and similar products exported to UK high end buyers such as Marks and Spencer necessitates the development of traceability systems for at least part

of the industry. Furthermore, the trend of requiring traceability may spread to the continent in the future.

4.2.2 TRDA activities

▪ *Farmapine Ghana Ltd.*

Farmapine is a limited liability company owned by five cooperative societies (with an 80 percent share) and two exporters (with a 20 percent share). In 2003 a total of 167 shareholding farmers were reported (Addo 2003). The company is in charge of buying, handling and exporting fresh pineapples. The original capital of the company came from a World Bank/IDA loan of 1.5 million US\$ lend in 1999. Furthermore, one year's working capital of the cooperatives and the company was provided as a loan. The participating cooperatives had benefitted from assistance from TechnoServe for several years before the formation of Farmapine.

Contractual agreements are made between the company and the co-operatives regarding input supply and pineapple delivery. Supported by TechnoServe, Farmapine assists farmers in the following areas:

- Procurement and delivery of all required production inputs on credit;
- provision of technical assistance in production and directives on production planning;
- provision of packaging material and training in grading;
- purchase of all export quality fruits at market prices, less credits provided;
- marketing and sale to overseas importers of all export quality fruits;
- provision of all logistic and administrative requirements for export of the crop.

In addition to the original shareholding farmers' cooperatives, the company has contracts with 300 new farmers as out growers on an individual basis.

Farmapine has furthermore received technical assistance from the OIC¹¹ and the Ghana Cooperative Assistance project funded by USAID and implemented by the Cooperatives Program of USDA Rural Development.

The Cooperative Development project coordinator provided formal training to 320 members of the cooperatives to help in the development and implementation of workable business plans, cooperative basic principles and governance, and pineapple crown reduction to meet export requirements.

A study of Farmapine has revealed that a high degree of satisfaction with the company by its shareholding farmers. Risks are reported to be lower and profits higher for farmers who are members of the five shareholding cooperatives than for other farmers (Yeboah undated). On the other hand, there are also reports of serious problems notably of management. Addo (2003) reports that Farmapine employs 80 permanent staff and thereby looks severely overstaffed given only 167 farmers and yearly exports of around

¹¹ The Opportunities Industrialisation Center (OIC) is a Philadelphia-based nonprofit organisation. It has been active in Ghana since 1971.

6,000 tons. Furthermore there is “little vision for the future and little anticipation on changes and risks. Also the influence of the farmers’ co-operatives in the decision-making process is unclear” (Addo 2003, p. 48).

▪ *Partnership for Food Industry Development – Fruits and Vegetables Project*

This project, known as PFID-F&V, is co-ordinated by the Institute of International Agriculture at Michigan State University and is one of a series of similar projects undertaken in African and Latin American countries. It is funded through a USAID grant for an initial period of four years and implemented by a number of agencies including TechnoServe, AMEX International and Care Ghana. The project has a website at <http://www.pfid.msu.edu/countries/ghana.html>. The project seeks to stimulate demand for pineapples through establishing a link with the Dutch supermarket chain Royal Ahold Inc. and works toward enhancing supply by incorporating small farmers into the market.

These NGOs have provided support in the areas of training and dissemination of information and technologies to smallholder producers, small businesses and consumers.

PFID-F&V provides short-term training for host country food industry professionals, either in the field, or in the US. Such training includes, but is not limited to, training in food safety, food quality, environmental, and/or labour practices and standards. Through the MSU Institute for Food Law and Regulation, PFID F&V facilitates access to distance education in food law and regulation. Similarly, PFID – F&V facilitates training in food and agricultural standards, both through MSU’s Institute for Food and Agricultural Standards, as well as through certain programs at USDA.

▪ *Complying with EUREPGAP standards*

There are two pineapple processors in Ghana. The largest one is the UK owned Blue Skies with a weekly production of about 60 MT serving mainly the UK market and producing peeled and sliced product in natural juice in semi-rigid packages. Blue Skies complied with EUREPGAP in November 2001. Compliance was a necessity as the company exports fresh cut pineapple and other fruits to extraordinarily demanding European buyers like Marks & Spencer and Sainsbury. The success was obtained after a private-public partnership involving the UK NGO, the National Resources Institute (NRI).

Blue Skies source its raw material from around 30 contract farmers ranging in size from smallholder (7 ha) to large-scale (245 ha). Approximately 30 percent of Blue Skies’ suppliers are smallholders (Boselie and van de Kop 2004). As the buyers of Blue Skies are unusual in Ghana being from the UK it is illuminating to study how EUREPGAP certification has impacted on smallholders.

The impact on smallholders of EUREPGAP certification was diverse (Boselie and van de Kop 2004; Gogoe 2002). First, smallholders generally learn to cultivate pineapple by imitating nearby larger growers. They have a poor understanding of the reasons behind the adopted production techniques and so use agro-chemicals incorrectly and disregard safety issues both with respect to their own safety as well as food safety. It is consequently a major step for the smallholders to convert to and comply with the strict

food safety standards laid down in the EUREPGAP codes. On-farm training and farmer field schools are an essential ingredient to build up their capacities.

Second, many smallholders are illiterate and furthermore lack access to credit and information on horticultural practices. Traditionally they have only very loose relationships with exporters. They struggle to keep up with EUREPGAP requirements for record keeping and the creation of storage facilities for agro-chemicals and packing station with access to drinking water.

Third, a study by Gogoe (2002) of 18 contract growers (small and large) linked up with Blue Skies does not show any significant changes in production costs as a result of the implementation of EUREPGAP. This masks two opposing development. The farmers generally save costs of agro-chemicals as they learn to apply them correctly but they incur higher costs of physical on-farm infrastructure like storage facilities and packing stations. While the 18 farmers are generally satisfied with EUREPGAP, they find that economies of scale rise on certified farms so they attempt to extend the size of their operations. One caveat of the study is that it only focuses on farm costs. The costs of monitoring farmers, training and testing are omitted as they are paid by Blue Skies.

The experiences of the NRI and Blue Skies is that the development of a strategy to include smallholders in the supermarket chain, has necessitated a partnership between public and private stakeholders (Boselie and van de Kop 2004). The partnership has in this case been set up and run with the active support of a donor, NRI, and it is uncertain whether the inclusion of the smallholders would be sustainable without donor involvement.

4.3. A case study of fish in Senegal

4.3.1 Development of the industry

Senegal is positioned in the South-Eastern corner of the African continent. It had an estimated 10.1 million inhabitants in 2003 and a GDP per capita of US\$ 550 per capita¹². It is classified as a Least Developed Country (LDC) and Senegal participates in the second wave of the Integrated Framework (IF). A Diagnostic Trade Integration Study was completed in November 2002 as part of the IF¹³ and a national workshop took place in the following month. An action plan was prepared on the basis of the workshop which was finally approved by the Cabinet in April 2003. Subsequently the government organised a Round Table meeting with potential donors in June the same year and in 2004, an Accelerated Growth Strategy is being prepared focusing on five sectors in which the main findings of the Diagnostic Trade Integration Survey are incorporated. The World Bank has already initiated various TRDA activities including

¹² Factual information on Senegal is mainly collected at the World Bank's country website for Senegal: <http://www.worldbank.org/senegal>.

¹³ See Integrated Framework (2003) for the main report. Sector reports may be found at <http://www.integratedframework.org/countries/senegal.htm>.

an Integrated Marine and Coastal Resource Management project¹⁴, which is based on the findings of Senegal's Integrated Framework exercise.

Improving Senegal's export performance will require the diversification of its exports into products that face potentially strong demand in world markets. A natural candidate in this regard is fishery products given the coastal location of the country, its long tradition of fishing, its already established presence in shrimp and lobster markets and the promising demand trends for fishery products at the global scale in general and in the EU in particular as the EU is the main trading partner and main donor of Senegal (Integrated Framework 2002).

The Senegalese fish stocks can be roughly divided into four types: Coastal bottom, coastal pelagic, deep-sea bottom and deep-sea pelagic which are mainly tuna. There are two very different types of fishermen to exploit the stocks. Industrial fishing dominates deep-sea pelagic while artisanal fishermen almost exclusively exploit coastal pelagic mainly sardines which are processed traditionally (smoking, salting) for local and regional markets. The two types of fishermen clash mainly in the pursuit of coastal bottom-dwelling fish such as grouper, yellowfin, mullet and sole which attract the most lucrative prices mainly sold in Europe as fresh fish. There are also conflicts within industrial fishing itself notably between foreign-owned and Senegalese vessels. Artisanal fishing is done from mainly motorised wooden pirogues which number over 80,000 and are responsible for about 80 per cent of total catches and 60 per cent of exports (Golub and Mbaye 2002).

Unfortunately, the fishing sector is in deep crises due to a number of factors including (i) the smallness of the fishery zones compared with the importance of the activity and the increasing scarcity of the resource, which accentuates the pressure and exacerbates the conflicts; (ii) the obsolescence of the fishing vessels and of the national fishing fleet; (iii) the inadequacy of the basic infrastructure in the fishery centers (landing areas, means for preserving and transporting the products, etc.); (vi) the low level of added value and of productivity; (vii) the fact that certain products are not competitive in the international market, and (viii) the unsuitability of the financing systems of non-industrial and industrial fishery activities.

In addition to the sector specific constraints, Senegal suffers from a number of more general domestic constraints to exports. These include access to financing and the high costs of financing, administrative barriers to the creation and operation of firms, lack of development of public utilities, access to land, labor laws and ineffective customs procedures¹⁵.

The fishing sector is already responsible for the bulk of export earnings with an estimated 38% of total exports in the year of 2000. The sector is particularly important regarding poverty eradication as it serves as a measure of last resort for former agricultural workers who find employment there. The export value of the fishing sector

¹⁴ This activity has been funded by Japan but is still not operational, see <http://wbln0018.worldbank.org/RMC/PHRD/proc%20planning.nsf/0/72c9b33e35e1202c85256e0b00799259?OpenDocument>.

¹⁵ Republic of Senegal (2002).

is even greater than what it appears to be judging from export statistics as it is the source of an export of fishing rights. Agreements with other countries allow for foreign trawlers to operate in Senegal's exclusive economic zone. Agreements have been made with the EU, Japan and neighbouring West African countries. The EU agreement is by far the most important one. The current agreement was concluded in June 2002 and covers the period from 1 July 2002 to 30 June 2006¹⁶. It gives fishing rights to 78 tuna fishing vessels (51 Spanish, 24 French and 3 Portuguese) and it sets quotas for the catch of demersal fish. These quotas are 30 per cent lower in comparison with the preceding agreement. Coastal pelagic species are excluded as they are reserved for artisanal fishing. In return, Senegal will receive a sum of €16 million annually, an increase over the €12 million from the previous agreement. In addition, European ship owners holding licenses for fishing in Senegalese waters pay royalties (WTO 2003b). In principle, the income from the export of fishing rights should be shared between the treasury and the local fishing industry, but whether or not this takes place is very uncertain (Golub and Mbaye 2002). It is estimated that Senegal in total receives around US\$ 20 million in payment for its sale of fishing rights (World Bank 2004).

The fishing sector faces three imminent problems. First, the Doha round may lead to preference erosion. Second, EU food safety standards are putting pressure on the industry to upgrade hygiene standards and other food safety-related measures, and finally, parts of the Senegalese fishery is broadly viewed as being unsustainable.

Senegal is classified as an LDC and furthermore benefits from the EU's Cotonou agreement. These trade preferences are particularly important for the tuna fishery as international competitions from East Asia, notably Thailand, is intense here. Tuna is mainly used in canning operations. Senegalese canned tuna mainly goes to the EU. The EU has a quota on non-ACP tuna and a tariff of 24 percent on these from which Senegal is exempt. These preferences are critical as studies show that Senegalese tuna cannot compete with Thai tuna on a free world market (Golub and Mbaye 2002)¹⁷. As a matter of fact, Senegal do not export tuna to the US as the country does not enjoy preferences here. If the Doha round erodes the preferences that Senegal enjoy, the three remaining Senegalese canneries will come under very severe cost pressure.

Export from third countries to the EU are subject to EU food safety standards. Third countries are required to implement food safety systems which are equivalent in stringency to EU ones. Whether this is the case or not is determined by the Commission acting upon information from the EU's Food and Veterinary Office that regularly inspects food safety systems of third countries¹⁸. The EU food safety system for fishery products has been tightened very significantly during the 1990s. As a result of French development assistance and the efforts of the Senegalese industry itself, the country appears on the so-called List I of countries to export to the EU. This is the highest

¹⁶ The previous agreement expired on April 2001 and was only renewed after a long period of tough negotiations which led to the exclusion of EU vessels from Senegalese waters for a little over a year. The first agreement dates from 1979.

¹⁷ In 1998, the *Caisse Française de Développement* estimated that Senegal's unit cost of production of a can of tuna were 25 per cent higher than in Thailand and 10 per cent higher than in Côte d'Ivoire (cited in Golub and Mbaye 2002).

¹⁸ The inspection reports of the Food and Veterinary Office may be found at http://europa.eu.int/comm/food/fs/inspections/index_en.html.

classification of a third world country involving the lowest costs of compliance possible¹⁹.

Fish stock management is generally viewed to be critical in Senegal (Golub and Mbaye 2002; Republic of Senegal 2002). The Diagnostic Trade Integration Study for Senegal depicts the grave situation of the fishing sector as such:

“The main issue with respect to this sector is the incipient crisis it is facing with respect to the depletion of fish stocks which, if not soon corrected, could lead to the collapse of a large part of this export-oriented industry in the next couple of years. The root cause of the crisis is the absence of regulations over fishing in a situation where the capacity to fish exceeds the availability of resources.

Reforms of the sector would need to focus on allocation of future catches. Specifically, the strategy would need to ensure regeneration of fish stocks, and determine their allocation between local industrial trawlers, foreign trawlers and the artisanal fleet. Such an allocation would need to take into account the impact of each group on fish resources (notably juveniles), the relative economics of each type of operation, employment concerns, value-added generated, and the demands of the world market and the local processing industry.

Senegal could benefit from the experience of other countries which are heavily dependent on fishery resources and which have faced similar problems and successfully tackled them. The solution would need to entail having the public sector assume an effective fisheries resource management plan that: (i) does not allow free and unlimited access to fisheries resources; (ii) reduces fishing efforts; and (iii) compensates those who are denied access to the resources. The application of such principles in Senegal will require that: (i) sector issues are brought to the top of the policy agenda; and (ii) the roles of both the private and public sectors are taken into account in the drafting of a coherent development program for the sector. Detailed measures are found in the Action Plan” (Republic of Senegal (2002), p. vi).

4.3.2 TRDA activities

- *Upgrading of quality in the Senegalese fishing sector*

The French development agency supported the upgrading of the fishing sector to meet EU food safety standards through two successive projects running in the period from 1993 to 1999. First, a fish quality programme worth French Francs 3 million was implemented. The project targetted the upgrading of the Senegalese public quality

¹⁹ The technicalities of the EU import regime are quite complex. There are three lists on which potential importers may appear. List I countries are allowed to export to the EU without conditions. Senegal is on list I. List II countries are only allowed to export under various additional restriction in addition to the ones laid down in the general regulatory framework. List III countries are generally not allowed to export although single establishment may be allowed under special circumstances and subject to special controls. A country may only be up-graded from one list to the other after inspections of the EU’s Food and Veterinary Office. The basic legislation is Council Directives 91/493/EEC and 91/492/EEC on fishery products and shellfish respectively that lay down the required sanitary conditions and procedures to be followed by both EU and third countries in order to put products on the EU market.

control system, two laboratories and the education of people employed in the fishing industry and the public quality control system. Second, the restructuring of the fishing sector was supported by assisting around 30 enterprises and by developing a fish resource monitoring system for tuna and for cephalopods (squid, cuttlefish and octopus).

The French assistance is a major reason behind Senegal's success in getting List I allowing it to export to the EU at the lowest possible food safety compliance costs. Reports from the EU's veterinary office monitoring third countries' fish exports to the EU, still complain about some remaining problems, but none of them serious enough to remove Senegal from List I (FVO 1999). The investments made to live up to the EU's hygiene standards have been very large and it is estimated that around 30 per cent were paid through the French foreign assistance (Golub and Mbaye 2002). Nevertheless, the whole experience was a costly endeavor for the industry with many firms unable to accommodate the new rules and subsequently going bankrupt. The artisanal fishing industry still experiences difficulties with EU hygiene standards although current malpractices are presumably tolerated by the EU authorities. Deficiencies include unloading of catches directly on beaches outside approved landing sites. Such beaches may be used as garbage dumps (Golub and Mbaye 2002).

Future changes in either the enforcement of current EU rules or of the regulations themselves may prove very difficult notably for the artisanal fishermen. It is presently unclear how the artisanal sector would fare under strict enforcement of hygiene rules. Future changes of EU regulations are very likely to include the introduction of traceability. This could include demands for knowing the origin of catches down to the individual boat in addition to basic information of how the fish has been caught and treated after the catch. Given the structure of the artisanal sector comprising of 80,000 pirogues often occupied by illiterate fishermen this would create a mountain to climb for the Senegalese fishing industry.

▪ *Integrated Marine and Coastal Resource Management project*

The analytical work undertaken within the Integrated Framework on Senegal identified fishery management as a key issue. The World Bank Board approved a new project entitled the 'Integrated Marine and Coastal Resource Management project' on 11 November 2004. The costs of the project will be shared between the International Development Association (IDA) of the World Bank (US\$ 10 million), the Global Environmental Facility (GEF) (US\$ 5 million) and the Government of Senegal (US\$ 1.49 million). The project is expected to become operational in February 2005 and to run over the following five years.

A scientific conference in 2002 concluded that the Senegalese fishing industry is in crisis due to overfishing. The fish stocks affected are mainly of the coastal demersal type including species like groupers, breams, shrimp, octopus and cuttlefish which account for the bulk of exports. While data on total catches are notoriously unreliable in Senegal, it is believed that there has been a 50 percent drop in catches of coastal demersal species between 1997 and 2002. This development spilled over into an estimated fall in total value added from the industrial fleet of 37 percent and of 42 percent for the artisanal fishermen (World Bank 2004). While overfishing is the major

reason for the crisis it is not the only one. Many critical habitats such as breeding and nursery grounds are threatened by industrial pollution and rice agriculture extending into critical mangrove forest areas.

Senegal has no fish resource management system to match fish catches with available resources. As innovations in fish transportation systems and increased international demand stimulated a hunt for high value demersal species as from the 1980s, overcapacity has developed in both the industrial and the artisanal sectors. Part of this development is a result of Senegalese developments and another part is a spill-over of the fish resource management problems in the EU which have sent Spanish, French and Portuguese boats searching for fish outside EU waters under the cover of fishery agreements.

The difficulties in fish resource management are political, institutional, technological and financial. It has proven very difficult to resist pressure from fishing communities as well as the industrial fleet to maintain open access to the fishing grounds, and at the same time the local institutions and the Ministry of Fishery have been poorly equipped to undertake the task. Technological capacity to estimate and monitor fish stocks is poor and the government has furthermore been forced to place a high value on the payments for the sale of fishing rights to other countries notably the EU.

The project first and foremost targets the management of the artisanal fishery. It will develop an area-based co-management system in three pilot areas of major importance namely the Senegalese river delta, the Cap-Vert Peninsula and the Saloum River delta. In such a system, local fishermen will share both the power to make decisions regarding geographically located fish stocks and the accountability with the government. The system will thereby lead to both a decentralisation of fish management to the level where the interests of good management are the highest and to the end of open access to the fishing ground including restrictions on artisanal fishing. Other elements of fish management policy that may be introduced locally or nationally includes a fundamental restructuring of the Fishery Ministry, restrictions in industrial fisheries operations and capacity, imposition of biological rest areas, periods to allow fish stocks to re-build and the establishment of a Fisheries Trust Fund to compensate excluded fishermen and develop alternative livelihoods (World Bank 2004).

The project has a twin objective of maintaining biodiversity in addition to the management of artisanal fishing. It also aims at the protection of critical habitats and ecosystems upon which fisheries depend through strengthening or creating biosphere reserves. The project is not a stand-alone activity. Other donor activities in the fishing sector touching upon fish management includes a project under preparation by the FAO and the African Development Bank as well as ongoing projects from the EU, the *Agence Française de Développement* (AFD) and Japan²⁰.

²⁰ On these activities, see World Bank (2004), p. 14 and additional annex 13.

5. Conclusion

TRDA is a new concept in trade negotiations but old in a development context. A substantial part has so far went to issues directly linked with trade agreements notably the build-up of negotiation capacity and the implementation of agreements. A shift is however occurring towards the incorporation of trade capacity building as well. In an African context, trade capacity building is equivalent to addressing the numerous supply constraints that the continent faces and which may be of a structural or political nature. High-profile initiatives in this regard include the Integrated Framework and the Joint Integrated Technical Assistance Programme as well as the development of Poverty Reduction Strategy Papers. As evidenced by the three case studies, there are very significant initiatives on-going outside these high profile initiatives by bi- and multilateral donors and NGOs that have a direct bearing on export capacity.

The expansion of trade capacity activities is a welcome development that may lead to a merger of trade and development interests in TRDA. Currently, there are big differences between how TRDA is viewed and discussed by trade negotiators on one side and by development practitioners on the other. Expanding the trade agenda to include supply capacity is welcome but we must keep the right perspective. It is difficult to argue against increasing TRDA levels through trade negotiations as it is easy to over-emphasise the potential that TRDA has to smoothen trade negotiations. The trade and development agendas are natural partners but the marriage is bound to be troubled. The three case studies illuminate why this is so.

First, let us take one step back. TRDA is constituted by two elements of which only one is studied in the case studies. Technical assistance to negotiation capacity building and trade agreement implementation is very general and it is hard to see how such assistance affects individual sectors. Nevertheless, two words of caution are warranted about how much good can be expected from these activities for African export industries. No doubt African trade negotiators are not as good and many as industrialised country ones. Nevertheless, African negotiation capacity is not the main reason why gains from multilateral trade talks are few. Two other reasons should be the key suspects. First, WTO talks is about horsetrading. Africa has few horses in the stable and it is this simple fact determined by the tiny sizes of African economies as compared with OECD ones, that is responsible for the poor leverage in negotiations rather than the number of the African negotiators and their skills to ride their horses. Second, African supply capacity is low and severely constraints the potential of the continent to exploit opening markets. More about this when the lessons from the case studies are discussed below. The second type of activity of which the value is doubtful is the assistance to ease implementation of trade agreements. Many of these trade agreements are of little importance to Africa. Low capacity to exploit new markets is one reason. Another is the fact that many WTO agreements actually regulate domestic policies that may affect trade rather than trade policies themselves and Africa has little interest in regulating TRIPS, SPS, TBT and other issues the way laid down in the WTO agreements which merely reflect developed country concerns.

So the major positive effects from TRDA should be expected from trade capacity building. The three case studies identify a number of supply constraints. In the Kenyan

case, malfunctioning input systems (agro-chemicals and credit), quality management, and rising transport costs and the intensification of competition from newcomers to world markets are key. Underlying these difficulties are the smallholder agrarian structure and existence of information asymmetries at the point of exchange in the supply chain. These have been accentuated by the rise of food safety standards that makes it impossible to measure the quality of the product exchanged (the parameters of documentation and pesticide residues) and so leading to increased demands for monitoring and farmer education. The Ghanaian problems are to a large extent similar although land access problems figure more prominently especially for the creation of large farms which is much easier in Kenya than in Ghana. The Senegalese fishing industry faces a number of challenges of which the two most important ones are compliance with ever stricter EU food safety standards and fish stock management. In all three cases, poor public capacity to set and enforce food safety standards is a dominant characteristic.

All three case studies are export success stories. In other words, in all three cases supply capacity problems have been frequent but surmountable so far. International market demand and private capacity rather than donor and NGO TRDA efforts have been responsible for this. There is one exception. The Senegalese fishing industry has greatly benefitted from French assistance to overcome food safety related market barriers. It is no small feat to be listed as a List I country in the EU. Things may change in the future. The Kenyan fresh produce and the Ghanaian pineapple sectors have chosen different paths to adjust to food safety standards. In Kenya, smallholders have been marginalised and production have moved to large-scale commercial growers often vertically integrated with exporters. In Ghana, low standard markets have been the main target and the smallholders have remained in the supply chain although as residual suppliers. Many donor efforts have attempted to improve the position of the smallholders in both countries. While there are some signs of success in individual cases (e.g. Blue Skies in Ghana) it is not possible to conclude that TRDA has generally been able to reverse the trend. The cost implications of food safety standards on smallholders vs. large farmers have not been worked out completely. There is some scanty evidence that it is more costly to comply for small than for large farmers due to higher investment costs initially and higher monitoring costs permanently. The success of TRDA will depend on whether this pattern is true and if it is, whether it can be changed. There is a risk that TRDA targetting smallholder groups and similar attempts to link the farmers with exports only serves as a subsidy to offset permanently higher costs. In that case, the smallholder-based sourcing systems will break down the moment the donors go home. In Kenya, there are reasons to suspect that that is going on. In fact, large companies like Homegrown, a company set up in the 1980s specifically for the supermarket trade, have been the main agents responsible for keeping some of the smaller guys linked up with export markets rather than TRDA efforts.

The mixed history of TRDA in the three case studies is evidence to the fact that supply constraints have a multi-faceted nature. Some are relatively simple to solve although potentially costly to finance such as the creation of laboratories to monitor fish hygiene in Senegal. Others are deeply rooted in African economic and political structures. A prominent example present in all three cases is the atomistic supply structure and the length of supply chains. The Kenyan and Ghanaian smallholders and the Senegalese

artisanal fishermen are simply much more costly to link up with export markets than their larger scale colleagues often found outside African countries. TRDA will have great difficulties changing this fact in the foreseeable future.

This turns us back to the troubled marriage of the trade and development agendas. TRDA in the trade agenda is seen as tool that may enable Africa to finally benefit from WTO sponsored market openings. The development agenda shows that we should be careful of expecting too much. Trade capacity development is not some new tool invented on the spot around the negotiation table in Geneva. It is a tried and tested, sometimes failed sometimes succeeded, tool in the development practitioner's toolbox. Many of the supply capacity problems Africa face are deep structural and political ones on which TRDA has little influence. The trade agenda also sees TRDA as a way of compensating African countries that might loose on specific issues such as preference erosion and rising food import bills in the case a country is a net food importer. The case studies show that TRDA may be a poor policy instrument here. The positive effects of TRDA are often uncertain and when successful, slow to materialise. Other ways of compensating losers such as safety nets or, even better, crafting better rules in the first place, are more obvious tools.

Nevertheless, the trade and development agendas will have to stick it out together no matter the troubles they are going through.

The discussion of the usefulness of TRDA in Africa much depend on one's perspective. If it is used in a trade negotiation context to turn losses into benefits or as a compensatory mechanism, it is problematic. In that perspective, it quickly becomes a bad excuse for neglecting issues that should be addressed by negotiating better trade rules than away from the negotiation table in the development department. If it is used in its own right, it should be welcomed with open arms. Actually, it may be best seen as a necessity although still only a piece in a puzzle in which domestic policy action is equally if not more important. Positive results do not lure just around the corner but may take time to materialise and failures will occur as always with development assistance. But, by the end of the day, there is a lot of potential in Africa. It is just not easy to set up sustainable trade but it can be done.

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