This book is an output of the FAO project, Articulating and mainstreaming agricultural trade policy and support measures, implemented during 2008-2010. With a view to maximizing the contribution of trade to national development, a process has been underway in many developing countries to mainstream trade and other policies into national development strategy such as the Poverty Reduction Strategy Paper (PRSP). A similar process of mainstreaming is strongly advocated, and underway, for trade-related support measures, including Aid for Trade. In view of this, there is a high demand for information, analyses and advice on best approaches to undertaking these tasks. It was in this context that the FAO project was conceived. Its three core objectives are to contribute to: i) the process of articulating appropriate agricultural trade policies consistent with overall development objectives; ii) the process of articulating trade support measures; and iii) the process of mainstreaming trade policies and support measures into national development framework.

The study is based on case studies for five countries - Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania. The approach taken was to analyse how the above three processes were undertaken in recent years. The book presents, in 15 chapters, analyses for each country of the above three topics – agricultural trade policy issues, trade-support measures and mainstreaming. Based on these country case studies, three additional chapters present the syntheses on these three topics.

The implementation of the FAO project was supported generously by the Department for International Development (DFID) of the United Kingdom.

ARTICULATING AND MAINSTREAMING AGRICULTURAL TRADE POLICY AND SUPPORT MEASURES

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FIAT PANIS

Articulating and mainstreaiming agricultural trade policy and support measures

Edited by

Ramesh Sharma

and

Jamie Morrison

TRADE AND MARKETS DIVISION
FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS
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Acronyms

ABPP06	Agri-business Promotion Policy 2006 (Nepal)
AfT	Aid for Trade
AGOA	African Growth and Opportunity Act
AIPA	All Island Poultry Association (Sri Lanka)
AMS	Aggregate Measurement of Support (WTO agriculture agreement)
AoA	Agreement on Agriculture (WTO)
APL	Above-Poverty-Line (India)
APP	Agriculture Perspective Plan (Nepal)
APP-ISP	APP Implementation 2006 (Nepal)
ASDP	Agricultural Sector Development Programme (Tanzania)
ASDS	Agricultural Sector Development Strategy (Tanzania)
ASP09	Agricultural Sector Plan 2009-2015 (Ghana)
BAU	Bangladesh Agricultural University, Mymensingh
BEA	Bangladesh Economic Association
BEPZA	Bangladesh Export Processing Zones Authority
BIDS	Bangladesh Institute for Development Studies
BIMSTEC	Bay of Bengal Initiative for Multi-sectoral Technical and Economic Cooperation
BPL	Below-Poverty-Line (India)
BSERT	Bureau of Socioeconomic Research and Training, Bangladesh
BSTI	Bangladesh Standard and Testing Institute
BTC	Bangladesh Tariff Commission
CAADP	Comprehensive Africa Agriculture Development Programme
CADP	Commercial Agriculture Development Project
CBT	Cross-border Trade
CCIE	Chief Controller of Imports and Exports
CET	Common External Tariff
CGE	Computable General Equilibrium
CNI	Confederation of Nepalese Industries

CPD	Centre for Policy Dialogue (Bangladesh)
CRS	Creditor Reporting System (at OECD)
CSO	Civil Society Organization
CU	Customs Union
DADP	District Agricultural Development Plan
DDB	Duty Draw-Back (Scheme)
DFID	Department for International Development, United Kingdom
DFTQC	Department of Food Technology and Quality Control (Nepal)
DoC	Department of Commerce (Sri Lanka)
DP	Development Partners
DPT	Degressive Protection Tax
DRC	Domestic Resource Cost
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
ECL	ECOWAS Compensatory Levy
ECOWAP	ECOWAS Regional Agriculture Policy
ECOWAS	Economic Community of West African States
EDB	Export Development Board (Sri Lanka)
ENTReC	Enhancing Nepal's Trade Related Capacity
EPA	Economic Partnership Agreement
EPB	Export Promotion Bureau
EPF	Export Promotion Fund
EPO	Export Policy Order 2003-2006 (Bangladesh)
EPZ	Export Processing Zone
ERB	Economic Research Bureau (Tanzania)
ERD	External Resources Department
FASDEP II	Food and Agriculture Sector Development Policy (Ghana)
FDI	Foreign Direct Investment
FNCCI	Federation of Nepalese Chambers of Commerce and Industry
FTA	Free Trade Area
GBS	General Budget Support
GED	General Economics Division (Bangladesh)
GIs	Geographic Indication
GNTP04	Ghana National Trade Policy 2004
GoB	Government of Bangladesh
GoG	Government of Ghana

GoN	Government of Nepal
GoSL	Government of Sri Lanka
GoT	Government of Tanzania
GPRS	Ghana Poverty Reduction Strategy (GPRS I) (Ghana)
GPRS II	Growth and Poverty Reduction Strategy (GPRS II) (Ghana)
GSP	Generalized System of Preferences
HAACP	Hazard Analysis Critical Control Point
HYCs	High Value Commodities
IEA	Institute of Economic Affairs (Ghana)
IF/EIF	Integrated Framework/Enhanced Integrated Framework
IIDS	Institute for Integrated Development Studies (Nepal)
ILFTA	Indo-Sri Lanka Free Trade Agreement
IMTC	Inter-ministerial Technical Committees
IPO	Import Policy Order 2003-2006 (Bangladesh)
IPRs	Intellectual Property Rights
I-PRSP	Interim PRSP
IPS	Institute of Policy Studies (Sri Lanka)
JAAF	Joint Apparel Association Forum (Sri Lanka)
JSA	Joint Staff Assessment
Kilimo Kwanza	"Towards a Tanzania Green Revolution"
MDA	Ministries, Departments and Agencies
MFN	Most Favored Nation
MGF	Matching Grant Facility
MKUKUTA	Tanzania's NSGRP (in Kiswahili)
MoAC	Ministry of Agriculture and Cooperatives
MoAFSC	Ministry of Agriculture, Food Security and Cooperatives
MoC	Ministry of Commerce
MoCS	Ministry of Commerce and Supplies
MoF	Ministry of Finance
MoFA	Ministry of Food and Agriculture
MoICS	Ministry of Industry, Commerce and Supplies
MoT	Ministry of Trade
MRA	Mutual Recognition Agreement
NAP04	National Agriculture Policy 2004 (Nepal)
NAVIS	National Agricultural Input Voucher Scheme
NBR	National Board of Revenue
NCC	Nepal Chamber of Commerce
NCED	National Council of Economic Development (Sri Lanka)
NES	National Export Strategy 2004-08 (Sri Lanka)

NFRA	National Food Reserve Agency, Tanzania
NGOs	Non-Governmantal Organizations
NIP10	Nepal Industrial Policy 2010
NNTP09	Nepal National Trade Policy 2009
NPC	Nominal Protection Coefficient
NPC	National Planning Commission (Nepal)
NPRGS	National Poverty Reduction and Growth Strategy 2004-2005 (Tanzania)
NRA	Nominal Rate of Assistance
NRB	Nepal Rastra Bank
NSGRP	National Strategy for Growth and Reduction of Poverty, Tanzania
NTB	Non Tariff Barrier
NTCS03	Nepal Trade and Competitiveness Study 2003
NTIS10	Nepal Trade Integration Strategy 2010
ODA	Overseas Development Assistance
ODCs	Other Duties and Charges
ODI	Overseas Development Institute (UK)
OFCs	Other Field Crops (Sri Lanka)
OGL	Open General License
PACT	Project for Agriculture Commercialization and Trade (Nepal)
PDS	Public Distribution System (India)
PRSP	Poverty Reduction Strategy Paper
PSI	President's Special Initiatives (Ghana)
PSIA	Poverty and Social Impact Analysis
REC	Regional Economic Community
RMG	Ready-Made Garment
RoO	Rules of Origin
ROPPA	Réseau des Organisations Paysannes et de Producteurs de l'Afrique de l'Ouest
RSL	Regaining Sri Lanka: Vision and Strategy for Accelerated Development
RTA	Regional Trade Agreement
SAFTA	South Asian Free Trade Agreement
SAP	Structural Adjustment Programme
SGR	Strategic Grain Reserve (Tanzania)
SME	Small and Medium Enterprise
STE	State Trading Enterprise

THDF	Ten-Year Horizon Development Framework 2006-2016 (Sri Lanka)
TNTP03	Tanzania National Trade Policy 2003
TYIP07	Three-year Interim Plan (Nepal)
TRQ	Tariff-Rate Quota
TRSM	Trade-related Support Measure
TSSP	Trade Sector Support Programme (Ghana)
UNECA	United Nations Economic Commission for Africa
WAEMU	West African Economic and Monetary Union

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1. The FAO project on trade policy articulation and mainstreaming
2. Introduction to this volume

1

Introduction and overview

Ramesh Sharma and Jamie Morrison

This chapter is divided into two sections. The first introduces the FAO project that contributed to this volume covering the rationale, objectives, implementation and the outputs generated. The second part introduces this volume, focussing on the three synthesis chapters covering the key components of the project.

1. The FAO project on trade policy articulation and mainstreaming

The context in which the FAO project that contributed to this volume of papers was conceived is the emerging environment within which developing countries will be formulating and implementing agricultural trade policies and trade-related support measures (TRSMs). First, trade policy is becoming complex due to multiple and overlapping trade agreements, which include bilateral, regional, preferential and multilateral agreements. Second, global competitive pressures as well as the drive to get the most out of the new trade agreements will draw increasing attention to support measures, notably supply-side capacity-building and infrastructure. One challenge in this regard is to identify and prioritize support measures that are articulated from within development policy frameworks. This includes operationalizing the new global initiative on Aid for Trade (AfT). Third, processes are underway in many countries to integrate or mainstream trade and other policies into national development strategies and plans such as the Poverty Reduction Strategy Papers (PRSPs). The experience to date is that agricultural trade policies and support measures have not been adequately mainstreamed into these processes. Indeed, there is also a lack of clarity with the concept of mainstreaming itself.

Recent evaluations of PRSPs and similar policies and plans have noted that these frameworks need to give much more attention and focus to agriculture in view of the sector's crucial role in economic growth and poverty reduction, greater sensitivity to the implications of trade liberalization, and the relative weaknesses in infrastructures and supply-side capability. It has also been stressed that trade policies are not well mainstreamed into the PRSP, thus resulting in confusing or contradictory guidance on appropriate trade policies. Attempts to mainstream trade policies in the PRSPs have been ongoing in many developing countries. This process is also important for articulating better approaches to mobilize additional resources promised in the global initiative on AfT.

These topics and issues – appropriate agricultural trade policy, trade support measures, the AfT initiative, and mainstreaming these in the national development framework – are high on the policy agenda of most developing countries. These are also high-profile topics in the global development agenda. There is a high demand for information, analyses and advice on best approaches to undertaking these tasks effectively.

It was in this context that the FAO project was conceived. Its three main objectives were to contribute to: i) the process of articulating appropriate trade policies consistent with overall development objectives; ii) the process of articulating appropriate trade support measures; and iii) better approaches to mainstreaming these policies and support measures into development frameworks.

The approach taken for this work was to analyse how the above processes have proceeded for a sample of countries. Five countries were identified: Bangladesh, Nepal and Sri Lanka in South Asia and Ghana and Tanzania in Africa.

In each case study country, the work comprised of a series of analytical and consultative activities, including an important component on capacity-building and training. The country activities were led by the following national institutions:

- Bangladesh - Bureau of Socioeconomic Research & Training (BSERT), Bangladesh Agricultural University (BAU), Mymensingh.
- Ghana - The Institute of Economic Affairs (IEA), Accra.
- Nepal - Institute for Integrated Development Studies (IIDS), Kathmandu.
- Sri Lanka - Institute of Policy Studies of Sri Lanka (IPS), Colombo.
- Tanzania - Economic Research Bureau (ERB), University of Dar es Salaam, Dar-es-Salaam.

For each case study, a team of analysts was constituted. The project budget envisaged supporting for each case study about 22 person-months of senior researchers and about 10 person-months of assistants. The number of senior analysts who contributed was as follows: Bangladesh - 14 of which 2 were from the government; Ghana – 8 of which 4 from government; Nepal – 9 of which 7 were from the government; Sri Lanka – 10 of which 2 from government; and Tanzania – 11 of which 3 from the government. On the whole for the five case studies together, there were 52 senior researchers of which 18 were from the government. Most of the government officers were from the ministries of agriculture and trade, with others from ministry of finance and planning commissions. In addition, 2 to 3 research assistants worked on each case study.

The analytical work consisted of background studies on the following four inter-related clusters of topics.

1. Analysis of agricultural trade policies and the process of policy formulation.
2. The process of identifying and prioritising TRSMs in agriculture, including agro-industry.
3. The process of mainstreaming trade policies in PRSP and other policy frameworks.
4. Using sound evidence for trade policy formulation, including through stakeholder consultations.

The Terms of Reference (ToR) for the background works were as follows: For (1): review the evolution of agricultural trade policies including prominent alternative views and positions in societies; examine current trade policies from the standpoint of completeness in their coverage of all important issues; and analyse the process of policy articulation. For (2): discuss and define the scope of TRSMs, including the AfT; and review TRSM statistics and policy documents in trade and agriculture with a view to analysing the current process and practice of articulating, identifying and prioritizing TRSMs. For (3): organize expert and stakeholder meetings in order to discuss and define the concept of trade "mainstreaming"; review all important policy documents – notably the PRSP and related policy frameworks (trade, agriculture, food security and industry) – to critically examine consistencies and synergies on key positions in these documents; and suggest approaches for improving trade policy mainstreaming. And for (4): review the current practices on trade policy formulation with a view to understanding the extent to which evidence based on sound economic analyses is generated and used for policy making; review the quality of stakeholder consultations held for this purpose; suggest how these processes can be improved.

Capacity-building and training activities were also integral parts of the Project ToRs. These took various forms. One was through learning by doing – by directly involving government officials in the analytical work, as lead or joint analysts of the various background papers. Eighteen of the 52 senior researchers were government officials actually involved in the processes addressed by the studies. Another mode of capacity-building was brainstorming sessions among the Project analysts and between them and current and past government officials and outside experts. Many such meetings were organized in all case study countries. Then there were wider stakeholder consultations also involving the private sector and CSOs. And finally, there were dissemination training programmes or workshops, such as the four rounds of training programmes in Bangladesh for professors and students from agricultural economics and other related departments in Bangladesh. Some of the collaborating national institutions have indicated that they intend to continue this process using methods and materials developed through the project.

The FAO project was funded by a generous grant from the United Kingdom's Department for International Development (DfID).

2. Introduction to this volume

The Project outputs form the basis of this book. For each of the five countries, papers on the following three topics are included:

1. Agricultural trade policy issues.
2. Mainstreaming trade policies.
3. Trade-related support measures.

And for each of the three topics, synthesis chapters have been developed. What follows provides a brief introduction to each of the three synthesis chapters.

Synthesis of country case studies on articulating appropriate agricultural trade policy

Chapter 2 summarizes the findings from the five case studies. Key trade policy issues are synthesized under five themes: i) evolutions in trade policy regimes and aggregate taxation; ii) trade and related policy in support of exportables; iii) trade and related policy in support of food staples; iv) implications of regional trade agreements; and v) link between domestic support and trade policy regimes. In addition to raising a series of issues that need to be considered in the articulation of trade policy regimes and associated policy instruments, the review highlights the importance of balancing the views of different stakeholders and of taking a more holistic value chain approach to policy formulation.

On the first theme, the review finds that although the level of aggregate taxation due to trade and pricing policies has fallen markedly, trade policy is still a critically important instrument in pursuit of goals related to agriculture-based development. On the second theme, the taxation of traditional export crops has been significantly reduced, but supply response has been weak due in large part to the widespread occurrence of market failures and high transaction costs. As regards the third theme, the pursuit of self sufficiency in food staples remains strong, more so following the 2007-08 global food price crisis. But there are some interesting differences in interpretation and viewpoints on this, and the instruments used are often implemented in an *ad hoc* manner, increasing uncertainly for the private sector and undermining the achievement of the objective. The fourth theme illustrates how bilateral and regional trade relationships are exerting crucial influences on the shape of national trade policies, and the fifth theme shows that the effectiveness of trade policy is linked to overcoming behind-the-border constraints.

The third sub-section of Chapter 2 is titled, *articulating appropriate trade policy – issues for consideration*. The discussion is organized under three parts, identified on the basis of the debates and divisiveness of policies in the case studies : i) balancing export promotion and import substitution; ii) facilitating export promotion; and iii) promoting import substitution – when, why and how? On the first point, although many countries have explicit objectives of export-led development, the majority also use trade policy instruments to allow domestic producers some level of support and/or protection against competition from imported products. This has triggered a debate between an extreme form of export-orientation (i.e. no role whatsoever for import protection) versus some role for import protection. It is argued that this is a false choice and that policy packages are likely to include elements of both, with appropriate trade policy regimes taking account of the extent to which the sector produces exportable product, import substitutes and non tradables. This becomes clearer when this discussion incorporates into the analysis the differential needs of trade policy for agriculture at different stages of development.

The third part of this sub-section, *promoting import substitution – when, why and how*?, covers a number of topics being debated currently. These include food self sufficiency – is import substitution feasible? - domestic markets and import substitution, what policy instruments in support of import substitution?, and a link to domestic support. The last section concludes by arguing that structural transformation is a dynamic process and the role of trade policy – especially the instruments used – will need to change. The challenge for policy makers is to lead this process, and not follow. There has been insufficient research into both the policies that may be appropriate at different stages of transformation and the extent to which current, or potential, agreements might constrain their use.

Synthesis of country case studies on mainstreaming trade policies and support measures

Chapter 3 summarizes the synthesis of the five country case studies on the topic of mainstreaming trade policy in the PRSPs. The chapter has three sections. Section 1 notes that there is a considerable amount of confusion in the literature over the concept and meaning of the term "trade mainstreaming" in the context of the PRSPs. This lack of clarity is one reason why PRSP evaluation studies have found that trade mainstreaming has been fairly weak so far. The section reviews some definitions and explains the approach taken in the case studies. Section 2.2 then summarizes some prominent observations in evaluation studies on trade mainstreaming. The weaknesses include: sparse coverage of trade policy issues in the PRSPs; even less coverage for agricultural trade issues despite the importance of the sector for growth and poverty reduction; poor evidence that the PRSPs have considered alternative views and options on trade policy; very weak analysis of trade-poverty linkages; and poor quality of stakeholder consultations. These are some of the issues addressed in the case studies.

Section 3 introduces the five studies. The analytical approach taken in the case studies was to review all relevant policy documents, notably the PRSP and trade and agricultural policies, with a view to identifying synergies/consistencies as well as gaps and contradictions. The case studies show some important differences on the design and content of the PRSPs and other policies. The key issue is mainstreaming. On this, it is noted that of the five cases, Ghana's policy frameworks demonstrate a fairly high degree of consistency on policy positions. This is attributed to a large extent to the focus given in the PRSP to one substantive strategy, "agriculture-led growth", and its coverage in a balanced manner, with parallel strategies of export-led growth on the one hand and domestic market-led industrialization based on import competition on the other. Because of this, trade policy is also consistent with agriculture and agro-industry policies. By contrast, in the countries where the PRSPs, and especially the trade policies, have focussed exclusively on exports and thus are imbalanced, one finds inconsistencies, especially with agriculture and agro-industry policies. One other important finding common to all case studies is inconsistency on the strategy and policies related to the identification and listing of priority products/sub-sectors for special treatment.

Section 4 concludes with some suggestions for improving the process of mainstreaming. Two substantive issues addressed are mainstreaming and trade content in PRSPs. On the former, a sequential approach is suggested for policy formulation. Noting that inconsistencies are largely found where the trade policy itself tries to articulate a more trade-focussed policy position and prioritization of products/sub-sectors, it is suggested that when it comes to formulating such policies for productive sectors (agriculture and agro-industry), the process should begin with the formulation of these sectoral policies and only then should trade policy come into the picture as support to those processes. Inconsistencies are also common when the PRSP itself does not articulate development and trade positions clearly, leaving subsidiary policies to interpret the positions.

The second substantive issue discussed is trade content in a PRSP. The PRSPs differ considerably in terms of the space or wordage devoted to trade issues. But the current weakness, more than the wordage, lies on the quality of the messages given. It is generally agreed that a PRSP should provide clear guidance on trade strategies and policies and leave the details to national trade policy. In order to prevent policy reversals, it is important to explain why certain positions have been taken on divisive policy issues. A PRSP also needs to be balanced in covering the trade support needs of both the exportables and importables. As a minimum, it also needs to be convincing that its positions are based on sound analyses on trade-poverty linkages. Lastly, current PRSPs need considerable improvement on incorporating in national policies the influences of regional policies.

That section also provides some suggestions on three additional cross-cutting issues: improving the process of targeting strategic or priority products/sub-sectors for special treatment; effective stakeholder consultations for formulating mainstreamed policies; and the need for clarifying terminologies used in various national policy papers.

Synthesis of country case studies on articulating trade-related support measures

Chapter 4 summarizes the findings from the five case studies on articulating TRSMs. It begins by explaining why the case studies chose to use the term TRSM instead of the more popular term AfT. Two reasons are given. One is that the AfT is limited to external funding, while the case studies cover issues that apply to all sources of support (external and internal). The other reason is that the scope of the case studies is all products and sub-sectors, including importables, whereas AfT is often seen as a support to exports only, although this is not clear from the report of the WTO Task Force on AfT. In that report, there are a number of places where it is explicitly said that AfT is for exports. Aside from these points, there is really no difference between the two terms.

Section 3 introduces the five case study chapters. Although they had the same ToR, the individual case studies differ in some respects for reasons such as the availability of statistics on TRSMs, materials for review and analysis, and the outcomes of stakeholder consultations. The fundamental goal is common, which is to review the current *process* of articulating and prioritizing TRSMs. The emphasis is on the process rather than quantification of the flows. Accordingly, the papers make good use of various policy documents for their guidance on TRSMs.

Section 4 synthesizes key suggestions made in the country case studies. These are meant to contribute to improving the current process of articulating TRSMs so that these are adequately mainstreamed within the trade and development policy frameworks. These observations also respond to some of the weaknesses identified in the literature on AfT. The discussion is organized under the following eight points: i) addressing the challenge of mainstreaming TRSMs in the PRSP and other policy frameworks; ii) ensuring that the TRSMs are channelled to both exportables and importables in a balanced manner; iii) the right balance between investment and subsidy; iv) articulating effective "incentives" measures; v) articulating support measures within a value chain framework for a balanced identification of TRSMs; vi) stepping up of bilateral and regional projects and programmes; vii) effective stakeholder consultations for articulating TRSMs; and ix) quantifying TRSMs or AfT for the purpose of prioritization and monitoring progress

On mainstreaming, the key conclusion drawn is that the process of identifying priorities and associated TRSMs should follow a sequence that begins with sectoral policies (e.g. agriculture, agro-industry), based on the guidance from the PRSP itself, and ending with the formulation of support measures in the national trade policy.

The appropriate framework for undertaking this work is product value chain. Noting that trade policies and the DTIS in particular tend to disproportionately focus on exports, and which is not consistent with the PRSPs, it is suggested that the needs of the import-competing agriculture and agro-industry should also be covered by the TRSMs. In addition to these two substantive points, suggestions are also made for striking the right balance between investment and subsidies, and in the choice of various incentive measures for production and trade promotion. A product value chain is again the most appropriate framework for identifying trade-offs and complementarities between different forms of interventions (investments, incentives, etc) for a given goal such reducing marketing cost by a certain percentage. Effective stakeholder consultations at both the macro and micro levels are also essential for articulating balanced TRSMs. Lastly, some suggestions are made on the issue of quantifying TRSMs or AfT for the purpose of TRSM prioritization and monitoring progress.

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2

Articulating appropriate agricultural trade policy - Synthesis of the country case studies

Jamie Morrison and Ramesh Sharma

1. Introduction

This chapter uses observations from the five case study countries to motivate a discussion of potential improvements that could be made to processes of articulating appropriate agricultural trade policy and to pose questions to guide policy makers through this process.

Five key themes are first compared across the case study countries, including the choice of development strategy and resulting implications for the aggregate taxation of the sector, the debates relating to export led development as opposed to import substitution, and the importance of regional trade agreements in shaping national level trade policy. In addition to raising a series of issues that need to be considered in the articulation of trade policy regimes and associated policy instruments, the review highlights the importance of balancing the views of different stakeholders and of taking a more holistic value chain approach to policy formulation.

The issues are then examined in more detail in the context of ongoing debates relevant to agricultural trade policy, with the aim of generating insights useful in guiding processes of trade policy articulation.

2. Synthesis of key trade policy issues in the case study countries

This section provides a comparative assessment of the case study findings on five key policy issues which are examined in each of the country case studies:

1. Evolutions in trade policy regimes and aggregate taxation.
2. Trade and related policy in support of exportables.
3. Trade and related policy in support of import-competing food staples.
4. The implications of regional trade agreements.
5. The link between domestic support to the agriculture sector and trade policy regimes.

For each of the issues, the main similarities and differences across the case study countries are briefly examined. The assessment is then drawn upon in the succeeding section to develop insights and recommendations for the improved articulation of appropriate agricultural trade policies.

2.1 Evolutions in trade policy regimes and aggregate taxation

The five countries have all followed similar patterns of significantly reducing the level of aggregate taxation of their agricultural sectors as they moved from the restrictive policy regimes of the 1970s and 1980s towards more market oriented, export focused regimes.[1]

- The Ghana national trade policy (2004) gives primacy to an export led strategy, which, in addition to seeking to remove the anti-export bias created by the taxation of traditional exports, recognizes the fact that restricted imports can also reduce export potential.

- In Tanzania, after the period of self-reliance based on large scale public ownership which followed the 1967 Arusha declaration, policy since the mid 1980s has, with the implementation of SAPs, also become more market oriented. As a result, aggregate taxation has fallen markedly: from about -50 percent in the 1970s and 1980s to -17 percent in the early 2000s for agriculture as a whole; from about -80 percent to -49 percent for eight export crops; and from about -50 percent to a positive 6 percent by 2000/04 for foods.

[1] Unless otherwise stated, all estimates of farm taxation and support reported in this chapter are from the World Bank studies on distortions to agricultural incentives. The country case studies, all dated 2009, are authored by Ahmed et al. for Bangladesh, Bandara and Jayasuriya for Sri Lanka, Brooks et al. for Ghana, and Morrissey and Leyaro for Tanzania.

- Nepal also followed a protectionist, import substituting regime between 1956 and 1986, but in this country too, the regime has since been much more liberal. Recent debates recognize the critical importance of export development which is seen as essential in light of the country's small domestic market. Interestingly, this point is also made in the Bangladesh case study, where the argument is made that factor-neutral technical change could mean that the potential of the domestic market to absorb locally produced products becomes constraining, and a greater focus on exportables is required.

- In Bangladesh, the trade policy regime is also significantly more liberal than it was two decades ago, but there is still a relatively high level of protection in comparison with the other case study countries. Although a significant number of quantitative restrictions have been dismantled and there has been a shift towards greater use of *ad valorem* tariffs, the average tariff plus para-tariff has only fallen from 76 percent to 32 percent. Bangladesh also has an active trade policy with respect to exportables, a policy supported by their import policy which allows liberal import of key intermediate inputs.

- In Sri Lanka, the taxation of traditional exports has fallen from over 40 percent during the 1960s and 70s to about 20 percent in the 1980s and 1990s. Certain importables also receive more positive protection, and while this is modest for the main staple crop rice, it is high for other crops such as chillies, onions, and potatoes. The Sri Lankan case study also notes that trade and pricing policies have been used in pursuit of multiple goals including containing retail prices, protecting farmers, and encouraging value addition. The study argues that the use of one instrument for these multiple goals results in different stakeholders being affected in different ways, giving rise to lively debates over the articulation of trade and related policy.

An additional trend noted in a number of the countries is that support and associated protection is increasingly focused on a smaller number of products, notably certain import competing products and non traditional exports.

In summary, although the level of aggregate taxation has fallen and, in general, these countries have become more open to trade, trade policy is still a critically important instrument in pursuit of goals related to agriculture based development.

2.2 Trade and related policy in support of exportables

As indicated above, the aggregate taxation of exports has fallen over the past few decades. However, there are key distinctions across the case study countries both in the instruments of taxation (and support) and in their application to traditional as opposed to non-traditional exports.

- In Ghana, taxation of cocoa, the main export crop, has fallen significantly from 80 percent in the1980s to 22 percent in the mid 2000s. At the same time, the share of the export value received by producers has increased from 21 percent to 70 percent. The main instrument that remains is the export tax and there is active debate as to its rationale, and therefore the level at which it should be set. The case study reports a decision to justify the level of tax on the basis of services provided to the sector and exemptions that producers are provided from paying other taxes, including income tax. However, this can make the setting of the tax on an annual basis problematic.

  A key observation is that Ghana, facing significant tariff escalation in export markets, has set an objective of increasing the amount of cocoa processed locally to at least 40 percent. This objective of increasing value added within the country is also reflected in the provision of incentives to industries producing and processing non traditional exports, with concessions on exporters' income tax and income tax rebates related to export performance. For these products, there is no export tax.

- As reflected above, in Tanzania there is still heavy taxation of traditional exports. The main instrument is a 20 percent tax on the sale price. However, this level of taxation has been exacerbated by the role of the exchange rate and market inefficiencies. Indeed, it has proved difficult to distinguish the effects of policy distortion from inefficiencies in marketing/market structures (Morrissey and Leyaro 2009). Although Tanzania seeks to encourage local processing by applying an export tax on raw cashew, and a cess on hides and skins, the unregulated power of crop boards and the pervasiveness of local taxes (collected on volumes and also charged at transit points) added to already high transport costs, can significantly discourage exports.

- In Sri Lanka, the case study observes that there has been a significant supply response in revitalized plantations as a result of reduced distortion on exportables, with export duties on all products eliminated by 1992. In addition, and in common with the other case study countries, non traditional exports have been promoted through Export Development Boards, using for example a subsidy on FOB value, and customs duty waivers on intermediate inputs. However, very limited assistance is provided in terms of trade and pricing policy, accounting for less than one percent of the value of exports.

  The Sri Lankan case study also raises an issue in respect of the interplay between export development and import policy. Using the example of the coconut industry, the study notes that the price of imported edible oils determines price of locally processed coconut oil, the main input for export products. A high import tariff on edible oils raises the domestic price of coconut oil hurting the export industry. Finding a balance between the interests of the four key stakeholders, growers, coconut product exporters, the domestic market coconut industry, and consumers of edible oils is problematic given the use of one instrument, the tariff. A result of the use of the tariff to meet multiple objectives is unpredictability, with the duty revised five times in 2008 alone. A number of suggestions have been made by the industry including linking the tariff to world palm oil prices to safeguard coconut producers, preventing stockpiling when tariff adjustments are made by monitoring stocks, and reducing middlemens' margins.

- In the Bangladesh case study it is pointed out that the trend in export bias reported in the World Bank distortions study, where aggregate taxation of exports appears not to have fallen, could be misleading given that the study only refers to jute and is therefore not reflective of the trade policy applied to other, non traditional, exportables such as vegetables and shrimps, which are positively supported. In promoting the development of these export sectors, cash incentives have been extensively used, and now cover 14 products and which vary across product and time. Their use is also associated with a high tariff on frozen shrimp and jute and on some import substitution crops such as fruits and spices. Additionally, the export policy prohibits the export of raw shrimp.

In summary, taxation of traditional export crops remains in most countries, albeit at a significantly reduced level. The reduction has not, however, always resulted in a significant stimulus to additional supply. In part, this is attributable to the widespread occurrence of market failures and high transaction costs, particularly in the African case study countries. By contrast, non traditional exports have received active and positive support through a number of different policy instruments, resulting in significant increases in the production and export of these products.

2.3 Trade and related policy in support of import-competing food staples

A common theme across the studies is the pursuit of self-sufficiency in food staples, particularly in light of the 2007-08 food price crisis. However, some interesting differences in interpretation and viewpoints are developed.

- In Ghana, policy is influenced by a declining self-sufficiency rate and the impacts that this may have in terms of higher food import bills, and on poverty levels in food producing areas. Rice self-sufficiency is currently at 33 percent, and, with increasing demand and low levels of domestic production, is likely to fall without intervention. Whilst Ghana has an explicit focus on export led development, and in the 2004 trade policy states that an import regime based on tariff escalation needs to be avoided, there are some potential inconsistencies reported, with counterpoints that the policy should ensure a reasonable level of protection to all domestic producers and should use tariffs to encourage domestic production of strategic commodities.

The Ghanaian case study also notes a particular susceptibility to import surges (for example, tomato paste where the domestic market share has fallen from 92 percent in 1998 to 57 percent in 2003). Following the 2007-08 food price increases, there is also recognition that the removal of import duties to counter the price increases opened up the floodgate for dumping of foreign products.

- The Tanzanian study notes that a fundamental policy objective is raising food production and competitiveness, with increased production and self-sufficiency at the core of policy frameworks. For example, the PRSP (the NSGRP) recognizes the potential to significantly increase grain production to capture not only domestic markets, but also regional export markets if appropriate trade policy and investments are made. It sets a target of increasing food crop production from 9 million tonnes in 2003/04 to 12 million tonnes in 2010. However, trade policy with respect to food staples is currently implemented on an ad hoc and interventionalist manner. Export bans are widely used, with exports only allowed when all regions of the country are declared food secure. Given that there is almost always a food deficit in one region, the ban is effectively continuous, making prices lower and more volatile.

- Sri Lanka has a stated desire to attain full self-sufficiency in rice. Import protection is the main instrument used with associated development measures such as irrigation and research. Rice trade is tightly controlled through import licensing and the STE monopoly. A major change was observed in 1996 when quantitative import restrictions were replaced by ad valorem tariffs plus licensing. However, tariffs are waived periodically when domestic prices are high, but raised when prices are depressed. The study notes that one view quite common in Sri Lanka is to have a rules-based variable tariff regime.

  Further in Sri Lanka, policy makers also have to account for the cross price effects between wheat and rice (this contrasts with the Bangladesh case where cross price effects are stated to be minimal). Indeed, the country has had a long term goal of reducing domestic wheat consumption and replacing it with domestically produced rice. The consumption of bread and wheat based products has fallen by 40 percent in five years. The case study also raises interesting questions related to the use of trade policy along the value chains, using wheat and poultry/maize as examples. These issues are returned to in more detail in the next section.

- In Bangladesh, the imports of rice are relatively unrestricted. Since 1993, coincident with the liberalization of rice trade, whereby private trade has become far more significant than public market interventions and have helped to stabilize prices, and the increased availability of rice exports from India, Bangladesh has adopted a strategy of food self-reliance. However, the 2007-08 price hike highlighted the propensity of government to re-engage in staple foods trade, imposing a ban on exports of rice and reigniting the debate on rice self-sufficiency. Interestingly, it is noted that rice self-sufficiency may be sensible not only politically, but also economically in the Bangladeshi context, given its comparative advantage in rice production at import parity prices.

In summary, many developing countries have an over-riding policy objective of increasing levels of food self-sufficiency. However, the instruments used in support of this policy goal are often implemented in an ad hoc manner, increasing uncertainly for private sector operators and as a result acting against the achievement of the policy objective.

2.4 The implications of regional trade agreements

Traditionally, trade policy has been debated and formulated at the national level. Increasingly, however, regional trade agreements are strongly influencing the shape of trade policy at the national level.

- In the Ghana case study, the question is raised as to whether it makes sense to discuss the appropriate level of rice self-sufficiency at the national level. Self-sufficiency is increasingly important for ECOWAS members and is reflected in their trade policy documents. In Ghana's case there will be a requirement to adjust to the ECOWAS CET since, with 90 percent of imports coming from outside ECOWAS, the CET will be the effective tariff for Ghana.

  The debate as to at what level the CET should be set for different products is ongoing. A recent revision adding a new highest band of 35 percent is an indication of the priorities reflected in ECOWAP. It is also noteworthy that safeguards are given particular prominence, perhaps because the original highest band was only 20 percent. However, for agreement to be reached between member countries on the levels of CET and safeguards, further harmonization of strategic or sensitive products will be required.

- Similarly, the Tanzanian case study reflects the difficulty of setting an appropriate CET for sensitive products within the EAC. Again, different stakeholders in different countries want different levels: producing members want a high CET, non producing members want the CET to be set at a low level or zero. For raw materials such as wheat flour, manufacturers want a low level, while producers in countries with production potential want a high level.

  In EAC, there has been a particular issue with the ad hoc nature of many governments' interventions in food staples markets. Indeed, the new EAC food security strategy states that export bans on food commodities and products intended for consumption within the EAC should not be used. However, although it is recognized that current forms of intervention causes unpredictability and dampens private sector investment, it is unlikely that governments will agree not to intervene at all. A move towards a rules based policy with clearer criteria for changing tariffs and reducing the use of NTBs has the potential to considerably stabilize maize prices in the region.

The three Asian case studies each comment upon the significance of trade relations with India. Trade with this significantly larger neighbour is seen as vitally important, but there are concerns over the use of trade barriers by India.

- In Nepal, the only significant trade treaty is with India. While the 1996 the treaty granted practically duty free access for all products produced in Nepal, a revision to the treaty in 2002 allowed for more stringent rules of origin, the use of TRQs on some products, and access to safeguard measures if a threat of injury to Indian industries was perceived. It is widely held in Nepal that the positive sides of the agreement are market access for Nepal as well as price stability in Nepal while the negative side is the intense import competition that Nepal faces in agriculture and industry. As a way of circumventing the agreement, Nepal imposes a 5-10 percent agricultural development fee which provides a degree of protection to domestic producers, but this is obviously a small relief.

- Under Sri Lanka's FTA with India, exports are said to be subject to a discriminatory sales tax which erodes any preferential margin granted under the FTA. In addition, rules of origin and the restriction of entry through a limited number of ports, the use of safeguards (quotas and canalizing imports through parastatals) also restrict levels of trade between the two countries.

2.5 The link between domestic support and trade policy regimes

A fifth theme relates to the extent to which trade policy can be considered in isolation of other measures used to support sectoral development, with the effectiveness of trade policy linked to overcoming production constraints.

- In the Tanzania study, the debate has been over the use of fertilizer subsidies as opposed to more general public investment.

- The Sri Lankan study provides an example of a case where even with a highly protective regime, field crops such as chillis, onions and potatoes have not shown much supply response. The reasons given for this are lack of appropriate technology (varieties), labour shortages/rising wages, and the focus on rice to the neglect of other field crops. The argument being that other factors need to be favourable for trade policy to work and the need to recognize the limits of trade and price policy in the face of binding supply side constraints.

- In the Bangladesh study, by contrast, the emphasis is on the need for a more transparent and predictable use of trade policy where private sector support to the development of marketing channels and infrastructure is needed. In other words the relationship between trade policy and domestic support works both ways.

- An important point is made in the Nepal study about the need to consider the level of development and/or commercialization in determining the appropriate policy mix.

The following section develops some of these issues further, in attempting to draw lessons for the articulation of more appropriate trade policy in support of, often multiple, policy objectives.

3. Articulating appropriate trade policy – issues for consideration

Although countries have used trade policy instruments to different extents, historical accounts of the net outcome of trade and related policies, in terms of levels of agricultural protection over the past four to five decades, do show some regularity. In earlier decades most developing countries taxed agriculture, directly through export restrictions and suppressed domestic prices and indirectly through industrial protection and exchange rate distortions (Kruger et al. 1988). These regularities have been further confirmed for a larger set of countries in the recent World Bank study on agricultural distortions (Anderson 2009). The latter study also demonstrates that in more recent years, the picture has changed markedly, with taxation of agriculture falling sharply on average, and in many countries, the sector being increasingly supported both directly through trade and related policies and indirectly through significantly reduced protection in non-agriculture sectors.

However, such aggregate trends and statistics can hide wide variations within and across countries. As an example, Sharma and Morrison (2009), using the estimates in the World Bank distortions studies for Asia, show that the simple average NRA for five Asian rice importers was 21 percent in 1995-99 increasing to 29 percent in 2000-04, mainly due to Malaysia (average of 64 percent in 1995-04) and the Philippines (average of 52 percent in 1995-04). However, as the NRAs were mostly negative for rice exporters, the average NRA for all 11 cases reported was 7 percent in 1995-99 and 15 percent in 2000-04 with NRAs generally within the range of plus or minus 15 percent.

Additionally, while the trends in aggregate levels of taxation or protection have been documented, such studies do not address the issue as to what policy stance is, or has been, good for the development of agriculture and of economies more widely. The extent to which the use of trade policy instruments in pursuit of specific policy goals such as price stabilization, food self-sufficiency, maintenance of rural-urban income equality and the promotion of exports has been compatible with the promotion of trade policy regimes that allow the agriculture sector to play out its role in processes of economic development is particularly pertinent in debates on the appropriate use of trade policy.

In this section, the issues highlighted by the review of the case studies are used as a basis for providing guidance to policy makers and analysts seeking to determine the appropriate trade policy regime and set of policy instruments for their particular country context. It first looks at the balance between export promotion and import substitution and then in more detail at the formulation of export led development policy and import substitution policy respectively. Pervading each of these areas of debate are considerations as to which trade and related policies are appropriate for countries at different stages of development, that is, supportive of their process of structural transformation.

3.1 Balancing export promotion and import substitution

Although many countries have explicit objectives of export-led development, the majority also use trade policy instruments to allow domestic producers some level of support and/or protection against competition from imported products.

Import substitution has a bad name in part as a result of the perceived failure of economic development strategies in many developing countries in the 1950s – 1970s which were based on the import substitution model (albeit focused on manufacturing sector rather than agriculture), and in part due to insights generated through neo-classical economic theory, which suggest that import substitution tends to draw resources away from sectors in which they would be used more efficiently. An additional criticism of import substitution is that immunity from competition leads to inefficiency in production for domestic markets.

However, it is important to note that import substitution is not necessarily incompatible with the development of export agriculture. Indeed, the development of more competitive import competing sectors, in addition to generating significant multiplier effects through income generation and expenditure in local markets, is likely to be a necessary precursor to building the scale of activity required for the development of broad-based export agriculture in which smallholder producers can more fully participate.

These facts have generally been ignored in the advice provided to developing countries on agricultural trade which has tended to focus on promoting opportunities for increased exports (be they traditional or non-traditional) to international markets, and overlooked the potential role that governments could play in enhancing the competitiveness of import substitutes and in supporting the development of market opportunities in domestic and regional markets. This is reflected in the focus of many trade diagnostic studies under the Integrated Framework, and even in many PRSPs, which tend to focus disproportionately on export expansion as an avenue for agriculture-led growth.

From a purely theoretical point of view, such advice may be justified. A rigorous conceptualization of export-orientation is one where not only are there no barriers to export but where all import tariffs and barriers are also eliminated. This follows from the Lerner Symmetry which states that import tariffs act as a disincentive to exports and should be eliminated. While the case for eliminating import tariffs on inputs used in the production of exportables is obvious, the Lerner Symmetry also implies the elimination of all import tariffs because such protection will undermine the exportable sector by making import-substitutes more attractive. Resources will be attracted to import-substitutes and thus will be a barrier to increased exports. On the basis of these arguments, there is no role for import protection within an export-oriented trade strategy.

On the other hand, there have been concerns about the distribution of the benefits of export expansion. In many cases these tend to remain with a small group of more sophisticated, better-off farmers and are not widely distributed among smallholders less able to participate in these higher value markets. For this reason, export development has often been enclave development, in the sense that its benefits are not widely shared among the rural populations and the profits generated have not been sufficient to lift significant numbers of rural households out of poverty.

In some countries, Chile for example, export success has been associated with a significant reduction in rural poverty, albeit the proportion of rural inhabitants was already relatively low and the development of export agriculture was from a higher level of agriculture sector development. The case of Chile is reflective of a number of better developed, more commercialized agricultural exporting countries (e.g. Brazil, Argentina, Thailand) where policy reforms have intentionally, or otherwise, favoured further increases in export levels at competitive prices. Although Chile is often held as a model of export led development, it is not clear to what extent this path can be replicated in countries still at earlier stages of agricultural development.

In practice, it is rare to find extreme forms of export-orientation. Rather, many countries use import trade policies and then implement measures to offset the extra cost on exports due to import duties on inputs, such as rebates on import taxes or duty drawbacks. Going one step further, export promotion zones have been created to avoid altogether the hassles of returning import duties to exporters. Such measures are commonly recommended in the DTIS/PRSP documents.

The choice of policy regime is therefore not clear cut. Indeed, Buffie (2010) argues that the choice between export promotion and import substitution is a false one and that policy packages are likely to include elements of both. Appropriate trade policy regimes must therefore take account of the extent to which the sector produces exportable product, import substitutes and non tradables.

The sizable literature on the East Asian experience of the 1970s and 1980s supports the argument, demonstrating that several of these countries built competitive advantages using dynamic trade policies based on complex combinations of selective openness and restriction within the context of overarching development strategies. These kinds of trade policy regimes were proactive and strategic, evolving over time and differing across sectors according to development needs. There was a well-sequenced combination of openness and control within the context of overall development strategies. Thus, the formulation of effective trade policy was not a simple, static choice between openness (and trade liberalization) and protectionism, but more about the correct sequencing of these instruments over time.

In terms of sequencing, historical evidence also provides a fundamental argument for a greater focus on food staples in relation to the process of agricultural transformation and its role in growth and poverty reduction at early stages of development. Many of the countries falling short of poverty and food security targets are still at an early stage of agricultural commercialization and most episodes of rapid poverty reduction and food security improvement (e.g. in India's green revolution) can be linked back to growth in food staples in these early stages of agricultural transformation.

While there is evidence that liberalization may have worked in favour of some export cash crops, which were often taxed under previous regimes, and in which the risks facing investors can be reduced by interlinking imperfect input and output markets, the scope for development of risk reducing non market institutions to overcome such imperfections in staple food crop systems are more limited.

Indeed, a key reason for the lack of transformation in many countries is that poor farmers will only diversify into, and then specialize in the production of, export crops when they can be certain of remunerative market access for any increases in their surplus staples production, and can afford to purchase rather than produce their staple consumption requirements.

Low-income producers simply may not be in a situation to respond to changing incentives. For example, they may be unable to alter their cropping mix, and their incomes may be reduced if the relative price of their product falls. Investments required to allow shifts of resources out of subsistence, basic food or traditional export crop into higher value alternative activities are not likely to occur where market failures are pervasive without some form of state intervention.

However, Dorward et al. (2004) contend that with the focus on export agriculture, many of the contemporary poorer countries have by-passed a critical stage of support and protection to their food sectors. Many of these countries are now left with relatively liberal trade policies, but weakly developed agriculture sectors, the development of which policy makers are now less able to support in the longer term and which, by virtue of low levels of applied border protection, are now more susceptible to short term external shocks.

When discussing the relative merits of import substitution versus export promotion, it is, therefore, important to distinguish between countries at different levels of development. In LDCs there is a strong rationale for focusing on the phase of transformation from a traditional to modernized agriculture, and which implies investment in basic food production. In middle to high income countries, the transformation from a modernized to globalized agriculture, where a more outward oriented policy stance may well be appropriate, will be a more relevant focus of trade policy debates.

The key policy problem faced by developing countries is not therefore whether to pursue export promotion at the expense of import substitution, or *vice versa*, but the ordering and sequencing of openness and control across different sectors over time rather than the extent of aggregate openness at a point in time.

The longer term objective of a more liberal agricultural trading system, where trade barriers would play a minimal role in offsetting or reducing the risks associated with appropriate levels of private sector investment in agriculture is not questioned. However, evidence suggests that support, and, sometimes, a moderate level of protection in favour of import substitution, may be required in moving towards that objective. This is because in the long run, markets (input, credit, output including adequate risk management instruments) are expected to function adequately, thus not necessitating government interventions. But in the short term, given the prevalence of market failures, they clearly do not.

3.2 Facilitating export promotion

Perhaps the most commonly stated goal of trade policy, found in almost all PRSPs, with statements such as "maximizing exports", "making agriculture export-oriented", and "maximizing the contribution of export to economic growth", is that of export promotion. While these are fairly clear objectives, and are not particularly divisive, some issues continue to be debated. These include: i) whether to restrict the export of raw materials to promote domestic industries or to allow free export; and ii) which products should receive export assistance and incentives.

In relation to raw materials, debates relating to trade policy interventions too often focus on particular products (e.g. wheat) without considering the influence of trade policy on inputs to its production or on higher levels of processing. Equally, the focus may be on sectors such as dairy, without differentiating between products within them. In determining appropriate trade policy, it is important to consider the impact of trade policy along the value chain. This is particularly the case where a policy objective is to encourage diversification into higher value products up or across value chains within a sector.

An appropriate trade policy might, for example, impose low levels of tariffs on wheat, in a country where local production is limited, or minimally affected by import levels. By contrast, it may impose a higher level tariff on wheat flour where there is a nascent milling industry and/or where wheat flour competes with other processed products that are produced locally.

With regard to export assistance, Jha (2008) lists a series of constraints to increasing exports to advanced markets. These include: low income elasticity of demand, low population growth rate in developed countries, agricultural protection in OECD, high standards and supply chain governance. It is interesting to note that there is little discussion in the DTISs about the potential of poorer countries to penetrate international agricultural target markets. For example, how realistic this is, the relative competitiveness of competitors, the size and maturity of the market, the difficulties of achieving higher standards and other value chain requirements etc. Indeed, South-South trade maybe more important/viable but is little discussed.

More attention is given in DTIS to niche export markets. But while the potential market for these interesting/different/organic products may be large individual transactions tend to be small. Jha argues that an export strategy cannot be based on niche marketing alone as by definition these are short term and fickle in nature.

3.3 Promoting import substitution – when, why and how?

While broad-based export agriculture has contributed to the reduction of poverty and food insecurity in some, perhaps more developed, countries with stronger institutions and safety nets for facilitating structural transformation, greater orientation to export agriculture has not significantly impacted on rural poverty and food security in many poorer countries where agriculture is the potential growth sector.

In such countries, significant inroads to reducing food insecurity will more likely be made through the modernization of basic food production systems for supplying domestic and regional markets. In addition to the obvious effect of reducing the reliance on food imports (particularly in periods of high food prices), historical evidence strongly supports the contention that the development of these systems has been critical in the transformation of agricultural sectors to a level at which transition to higher value products can be made. The development of food production also allows producers to move from own consumption of food crops towards greater participation in cash crop production. In turn, this allows the building of scale in these products necessary for eventual penetration of export markets.

However, agricultural trade policy for import substitutes is complex, notably given the issue of food self-sufficiency which is argued for from a number of perspectives which are more or less relevant in different country contexts.

Food self-sufficiency – the arguments

Several quite different reasons have been given for pursing the goal of food self-sufficiency. These can be categorized into those related to concerns about the ability to source sufficient food and those related to the role of increased food staples productivity in wider agricultural and economic development.

The first category includes: i) world markets not being reliable as a source of food staples – this is especially the case for rice; ii) large countries such as India and China should not rely too much on world markets; iii) the negative experiences of export bans of 2008; and iv) underdeveloped domestic infrastructures meaning that stabilizing prices with imports is problematic and so there has to be sufficient production locally.

Policy responses to the difficulties associated with high food prices in 2007-08 were generally contrary to the longer term trends towards greater openness to food imports and to export promotion. Short term responses by competitive food exporters to restrict their exports in order to maintain affordable prices for domestic consumers, and by food importers in releasing stocks and in subsidising both food prices and the provision of key inputs for basic food crop production were out of sync with orthodox policy advice. Importantly, there has also been significant discussion of longer term responses, although no significant action has been taken to date focusing on countries' ability to enhance their own food supply capacity and hence to reduce their reliance on imports from what are perceived as being increasingly more volatile global markets (see for example, FAO 2008a and 2008b).

Another reason often given for pursuing the goal of food self-sufficiency irrespective of the economic costs is that for countries with underdeveloped infrastructure (e.g. Nepal, but also large tracts of backward regions in countries like India, Indonesia and China), imports will fail to stabilize prices within a reasonable band because the gap between import and export parity prices is very large, and food production in those regions has to be sufficiently stimulated to keep downward pressure on real consumer prices.

The second category relates to increased self-sufficiency as a means by which widespread backward and forward linkages can be taken advantage of to promote dynamic rural economic growth and poverty reduction.

Most PRSPs, and similar national development plans, acknowledge this role with statements such as "to maximize the contribution of agriculture to economic growth and poverty reduction". While it is rightly claimed that higher levels of self-sufficiency and associated increases in intensive agricultural activities can create widespread backward and forward linkages and so a dynamic rural economy, the point of debate is again on the role of trade policy in increasing or maintaining self-sufficiency, because these policies also come at some economic cost.

In contrast to export commodities, where improved market conditions generally imply increased producer prices and incomes, with basic food commodities, there is a greater degree of conflict between price increases faced by consumers and those received by producers because of the importance of the commodities in the consumption baskets of poor households in these countries.

However, for this reason, cereal based intensification can have significant multiplier effects. Dorward et al. (2006) explain how linkages in rural economies are strongly influenced by levels of resource use in the production of food crops, and by the investment and use of surpluses from staple crop production which tend to be more concentrated on local markets. Increased farm incomes and demand for rural labour as a result of increases in productivity are key drivers of wider growth in rural incomes.

Growing rural-urban income gaps are seen as yet another challenge facing policy makers. This becomes more of an issue as the rate of structural transformation in a country takes off, and the gap between rural and urban incomes widens rapidly. It is one of those empirical regularities of economic transformation that as non-agricultural sectors grow faster, agriculture's GDP share shrinks while agriculture's employment share falls more slowly, thus reducing relative farm income *per capita*. This has been a policy challenge for developed countries for decades, and is now also being felt strongly in the fast growing developing countries. The typical government responses have been maintaining higher profitability of agriculture, provision of subsidized inputs and services, and direct payments where affordable. As structural transformation continues, this pressure will only increase, and governments will continue to respond in one way or other, including through the use of trade and related policies.

The wide array of justifications for food self-sufficiency highlights the importance of understanding the relationship between the rationale provided for interventions in support of food self-sufficiency and the level of agricultural development in a given country.

It is clear that among the goals that seem to have been pursued, the goal of price (or supply) stability stands out for the main basic foods. This was also noted very clearly in the World Bank distortions project case studies, where the data showed that in many cases there was little year-to-year correlation between the domestic and border prices of the major food products. This implies that, as noted by Timmer and Dawe (2007), the estimated NRAs - positive or negative - are mostly the by-products of the pursuit of this goal, and will continue to fluctuate as long as this goal is pursued. The societal preference was very clear – supply/price stability for basic foods is valued for a variety of socio-economic reasons, and this preference is unlikely to change any time soon.

In both categories, the sub-objective of price stabilization is therefore critical. Whilst for the more advanced economies, consumer interests and income inequalities may explain this primacy, in poorer countries, price stability is critical to ensuring adequate levels of investment in improved productivity levels (see also Dawe 2010).

Is import substitution feasible? - Domestic markets and import substitution

In countries where stimulating broad-based agricultural export growth has proved difficult, there are often more promising opportunities to produce food for domestic markets. Many poorer countries are not yet at the stage where domestic markets for high value products provide substantive outlets. Hazell (2006) notes that because of the "small initial value of these domestic markets (and similarly of markets for non traditional exports), even rapid growth would not translate into significant economic leverage within the next 10 to 15 years". By contrast, the current value of Africa's domestic demand for food staples is about USD 50 billion per year, and this figure is projected to almost double by 2015, a USD 50bn increase in market opportunity by 2015 (Hazell 2006). Only part of this output is currently sold (the rest is consumed on farm), but it still represents a large and growing market. Diao and Hazell (2004) further argue that since Africa currently imports 25 percent of grain products such as maize, rice and wheat, domestic production could potentially displace some of these imports. There is in principle, therefore, very large scope for expansion of cereals production by small farmers in substitution of imports.

However, while large domestic internal markets have often been found to be a pre-requisite to agricultural growth in Asian economies which was based on basic food production, since they facilitated the shifting of the commodity from surplus to deficit areas, helping to ensure effective demand was maintained even in times of surplus and therefore assisting in stabilising prices, in many of today's poorer developing countries, domestic markets are relatively small and cannot adequately fulfil this critical role. Here there may be a potential role for regional grains markets with common external tariffs but no restrictions to internal trade, as a substitute for the lack of a large domestic market (Morrison and Sarris 2007; Sarris and Morrison 2010).

What policy instruments in support of import substitution?

There is also the policy challenge of determining the extent to which to use trade and related policies to respond to the widespread desire for increased self-sufficiency.

Taken from the consumer perspective, given that positive or negative NRAs may be associated with some resource misallocation costs, a natural policy question is to what extent should the supply/price stability objective be pushed? A common, and reasonable, answer is that this should not be excessive, and some transmission of fluctuating prices is desirable whether world prices are in an upswing or downswing. Would trying to stabilize domestic prices within some band such that the resulting NRAs are moderate, e.g. within plus 15-20 percent, be an "appropriate" trade policy? A nuanced trade policy suggestion, reflected in current practice, suggests that this band would vary by the importance of both the product[2] and the level of agriculture sector development (i.e. the sector's ability to react to/absorb the impacts of price instability).

WTO rules have not been helpful on this, not just on export bans but also in making transparent the operations of large food multinationals and STEs. Further trade reform is, to a large extent, also conditioned by reforms in these areas at the WTO so that food importers have more confidence in global food markets.

Taken from the perspective of the role of increased staples productivity in structural transformation, the approach will be different. The fact that economies are expected to transform highlights the importance of taking a longer term view of trade policy. The trade policy set that is appropriate at one stage of development/commercialization may not be appropriate at another.

Take, for example, import competing commodity sectors which would contract in the face of greater import competition (perhaps as a result of tariff reduction), but which are critical to rural growth and/or livelihoods, and which could become competitive in the medium to longer run. Providing a better investment environment could promote levels of investment in productivity enhancing technologies, generating surpluses and in turn allowing the diversification of resources to more "competitive" sectors (Morrison and Sarris 2007). Providing a more stable and remunerative investment environment, through a moderate level of border protection during which the sector (and wider economy) develops as improvements in productivity are made may therefore be critical at this stage.

[2] For example, for Asia, it has been found that the extent of the transmission is much less for rice, moderate for wheat and significantly greater for maize (Sharma 2002).

At later stages of development, preventing short term disruption to such domestic sectors which may otherwise now be competitive under "normal" trading conditions, but which by virtue of susceptibility to risk in conjunction with limited access to risk management instruments and safety nets, could suffer from exposure to low-cost, often subsidized, imports and associated price instability may be paramount. In these cases, variable levels of border protection maybe more appropriate than a moderate level of tariff protection.

As the economy (and markets/institutions) develops further, such safeguards may become inappropriate given improved access to markets and institutions to offset risks to investment. In such cases policy support could encourage the removal of now inappropriate retention of resources in such sectors.

In the more advanced developing countries, often having relatively commercialized agricultural sectors with significant export potential, arguments for agricultural policy in favour of import substitution regimes are generally made on the basis of national food security concerns (as defined by the level of food self-sufficiency), the need to maintain food producers' incomes, to ensure adequate and accessible food for poor consumers and the provision of public goods. Such concerns have been cited during the current food price crisis and policy responses of a short term nature used to alleviate these concerns. In these middle income countries, a focus on export promotion is however more likely to be an optimal policy stance than one that favours import substitution.

In order to contribute effectively to development efforts, trade policies must therefore be dynamic and must avoid giving constant and linear support to the economy as a whole or to certain sectors. On the contrary, they must be adaptable, and differentiated between sectors and between the various segments of a given sector. Consideration of this issue, therefore, must not be restricted to the sterile debate between openness and protection - it must focus on seeking the optimal combinations of the different instruments of trade policy and on building the necessary institutions in order to support the economic development process and improve the competitiveness of national economies.

Equally important is that protection is not seen as being permanent. It is a common criticism of proponents of liberalized trade regime that once established, a certain level of protection can be difficult to reduce or remove. Evidence from more advanced countries supports this criticism. In the EU for example, significant transfers to producers remain although a core initial reason for their introduction was to improve levels of food security. Often, the transfer remains, but the "rationale" changes. For example, a policy objective can change from food security to supporting incomes, to environmental management.

In articulating appropriate trade policy, mechanisms should be put in place for ensuring that trade policy itself can change in line with changing objectives and needs. As such, policy should ideally be simple, transparent (to reduce political economy considerations), credible and not too variable (see, for example, Buffie 2010).

A link to domestic support

The agricultural sector strategy that is followed obviously matters in formulating trade policy. For example, according to Timmer (2009), placing rural diversification at the centre of agricultural and rural development means that two quite different tasks need to be managed simultaneously – raising productivity of staples for farmers continuing to grow them and using the low costs of these staples as fuel for agricultural diversification (wage good for labourers and feed for livestock).

In determining the appropriate trade policy, it is also important to consider to what extent trade policy alone can generate a supply response. It is often assumed that trade and price policy uniformly affects producer prices. But this is only if there is strong spatial price transmission and significant smallholder market participation – i.e. markets need to be well linked and producers need to be active in them (Barrett 2010). If this is not the case, then the impact of trade policy will not be noticeable (this may also be an issue for trade support measures).

Different sets of producers will be more or less responsive to identical changes in output prices depending on the policy and institutional environment that they face. However, border protection/trade policy is only one component of support to import competing sectors. Indeed it is often unclear how effective border policy will be. For instance, staple food producers in many rural areas may be argued to be well "insulated" from competition from world markets, with or without tariff protection, due to the wide gaps between import and export parity prices in producing areas (akin to natural protection). Here, the reduction of factors contributing to such margins, through, for example, improvements in rural infrastructure is critical to stimulating greater volumes and therefore reducing risks and transaction costs in rural markets. Establishing the determinants of such differential supply response is critical in explaining the impact of policy and institutional support interventions.

4. Conclusions

A key rationale for this chapter is to stimulate policy makers and analysts into reconsidering the articulation of appropriate trade policy. The discussion in the preceding sections has illustrated the need to rebalance the debates regarding export promotion and import substitution. The two should not be seem as incompatible. Indeed both are required, and the emphasis will in large part be determined by the stage of structural transformation and associated role for agriculture and agricultural trade in a particular country.

Structural transformation is a dynamic process and the role of trade policy – especially the instruments used – will change. The challenge for policy makers is to lead this process, and not follow. There has been insufficient research into both the policies that may be appropriate at different stages of transformation and the extent to which current, or potential, agreements might constrain their use. Having reached, or crossed, a threshold in terms of negative to positive NRAs, policy makers need to be better informed in designing and implementing trade and related policies. They will also continue to need trade rules and related institutions that are conducive to the implementation of different policies in different contexts.

Most countries are already becoming more nuanced in the articulation of trade policy, which now tends to be more focussed on a smaller number of key strategic products. In general, for bulk of the over 600 agricultural tariff lines at the HS-6 level (about 200 products at the HS-4 level), applied tariffs have been both low and stable from year to year, and very few other interventions on these tariff lines. In other words, most trade interventions are limited to a small sub-set of agricultural products. In the Doha Round negotiations too, Members seem to be more concerned with provisions designed for a sub-set of agricultural products, such as for sensitive and special products, and in the design of an effective SSM, than in the extent of formula tariff cuts.

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3

Mainstreaming trade in development strategies – Synthesis of the country case studies

Ramesh Sharma and Jamie Morrison

1. Introduction

This chapter presents a synthesis of the five chapters in this volume on the topic of mainstreaming trade policy in development policy frameworks, notably the Poverty Reduction Strategy Papers (PRSPs). There is a considerable amount of confusion in the literature over the concept and meaning of the term trade mainstreaming in the context of the PRSP. This was noted as an issue to be clarified in the course of the background works in the five countries. Indeed, this lack of clarity was considered to be one reason why PRSP evaluation studies have found that trade mainstreaming in the PRSPs has been fairly weak so far. Section 2.1 addresses the definition of this concept.

Section 2.2 then summarizes some observations made on trade mainstreaming in the PRSPs based on evaluation studies. These studies have pointed to a number of weaknesses, although the situation is improving in the more recent PRSPs. In undertaking the background works in the five countries, these observations on the definition and the identified weaknesses were reviewed and discussed. Section 3 introduces the five case studies, covering the analytical approach taken, information used and issues raised. Section 4 then picks up several issues with a view to contributing to improving the process of mainstreaming in the new PRSPs and related policy documents.

2. Trade mainstreaming – concept and issues

2.1 What is trade mainstreaming?

In the literature, there are not many papers that have clearly defined this concept in a way that is operationally useful. One important contribution is from UNECA that has published an issues paper and country studies. In the issues paper (UNECA 2004), mainstreaming is defined as follows, "A working definition of the term mainstreaming trade policies in national development strategies involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals .... therefore, a deeper understanding of how trade policies can complement and reinforce policy actions across the board is an important step in achieving enhanced development results." The paper however does not elaborate further on the operational aspects. The Tanzania case study in that series (Wangwe *et al.* 2007) also makes an interesting statement, "Mainstreaming trade in development strategies presupposes that the era of trade liberalization is being replaced by the era of trade policy and managing trade for development." In this view, trade mainstreaming is seen as a process of actively using trade policy to promote development, rather than limited to trade liberalization alone.

Rahman (2004) also offers a number of interesting views on the concept in a presentation made at an expert meeting on trade mainstreaming: i) a process of reflecting on trade policies and priority areas of action within the overall national development plan or strategy; ii) a process of bargaining among key stakeholders; iii) establishing a correct balance between trade liberalization and companion policies; iv) bringing trade matters into the dialogue on the poverty reduction; and v) raising the profile of trade in the development debate.

The World Bank's PRSP Sourcebook (World Bank 2002) is meant to help countries prepare PRSPs. Its chapter on trade policy (Chapter 13) provides briefs on many trade topics including trade policy instruments and institutions, tariff regimes, NTBs, export subsidies and taxes, export processing zone, regional trade agreement (RTA), complementary policies and so on. While being useful for these briefs, the chapter does not address how these policies are to be integrated or mainstreamed in sectoral policies. One reason why this might have happened was that the Sourcebook did not have chapters on productive sectors like agriculture and industry, where mainstreaming issues are most relevant.

Based on these limited sources, a common view seems to be that - as in the UNECA definition – mainstreaming is a process of formulating the PRSP and related national policy documents in such a way that contradictions are avoided and strategies and policy statements are made mutually consistent. Also notable is Rahman's view that mainstreaming is also about establishing a correct balance between trade liberalization and companion policies. Implicit in this view is that the depth of liberalization is a function of the ability to put in place companion policies. This message is also important for *et al.* articulating trade-support measures. The Wangwe *et al.* view is also interesting in that it sees the process as actively managing trade policy for promoting development.

In the country case studies in this volume, the authors took note of the above definitions and discussed them with a view to articulating a practical approach for trade mainstreaming. That was not easy. In the end, a two-step approach was followed: i) first, a careful reading was done of the relevant national policy frameworks, starting with the PRSP, with a view to examine where and how trade and related policy issues are mentioned and articulated; and ii) second, for selected policy issues of a more divisive nature, the positions taken, or not taken, on these issues in various policy frameworks were examined with a view to identifying consistency/synergy, on the one hand, and the gaps and contradictions, on the other. This approach is similar to that articulated in the above UNECA paper.

2.2 Issues on trade mainstreaming

PRSPs have been subject to evaluations by agencies like the World Bank and IMF as well as bilateral donors, NGOs and analysts. There is a fairly high level of consensus in these reviews on the weaknesses, e.g. sectoral policies are not well mainstreamed, PRSP preparation process was not inclusive and participatory enough, trade-poverty linkages were not considered enough, and so on.

As regards trade mainstreaming, there are some important contributions to note. One fairly comprehensive review of the trade content in PRSPs was the study undertaken by ODI (Hewitt and Gillson 2003) covering 17 countries. It analysed the PRSP and related documents around six issues or questions on trade policy, PRSP and poverty. This study is also summarized further in Ladd (2003). Another important study asking similar questions was undertaken by NOVIB, Netherlands (van der Borgh and Bieckmann 2002). It reviewed the contents of both the PRSPs and the WB/IMF loan-related documents to examine the extent to which social impact analysis (the PSIA) of trade policy was undertaken in the PRSPs. Almost 30 African PRSPs were also examined by UNCTAD in its 2002 LDC Report (UNCTAD 2002). This work was further reviewed by Oxfam (2004) under a section called trade and PRSPs.

At the risk of missing out on some additional points, the following were the main observations made in these studies:

1. Trade policy issues are sparsely covered in the PRSPs.
2. Agricultural trade issues are covered even less, despite strong statements on the sector's importance for growth and poverty reduction.

3. The evidence that the PRSPs have considered alternative views and options on trade policy is very weak. As a result, recommendations were uniform across the PRSPs (e.g. always "more" to liberalization, disproportionate emphasis on "exports", and little on trade policy issues and importables or foods).
4. Analysis of the trade-poverty linkages, including PSIA analysis, is rarely found.
5. Stakeholder consultations were mostly held but were of poor quality, both in coverage of stakeholders (even ministries) and in preparation (which also explains why trade policy alternatives were not addressed well).
6. There were mixed results on national ownership and participation in the PRSP formulation – hence the criticisms of the donors' dominant role in the process.

The above reviews mainly covered older or first generation PRSPs. The earliest of these evolved from around 1999 as a new form of conditionality for debt relief and concessional lending. The emphasis then was on social sectors (health, education) as a way to attack poverty. It is held that for this reason growth and trade contents were lacking. This has been changing with the more recent PRSPs that are focussing on growth issues, and on productive sectors like agriculture and industry. In this regard, a more recent ODI study (Driscoll *et al.* 2007) that reviewed six recent PRSPs for Africa finds that the coverage of trade has improved considerably but its quality remains poor. The PRSP documents were still fairly weak when it came to considering alternative views and policy options on trade and in establishing analytical links between trade and poverty reduction. Likewise, the treatment of trade policies remained unbalanced in the sense that the focus was mostly on export promotion and not on wider trade issues. The PRSPs were also found to have given little attention to incorporating regional approaches to improving competitiveness and trade despite the growing influence of regional policies.

3. Introduction to the case studies

The Terms of Reference for the country case studies included the following: i) review the concept of mainstreaming through expert and stakeholder consultations; ii) review relevant policy documents, notably the PRSP and trade and agricultural policies, with a view to identifying synergies/consistencies and gaps/contradictions; and iii) suggest ideas for improving mainstreaming. What follows briefly introduces the five studies; the next section discusses ideas for improving the process.

The Ghana case study analyses a number of policy documents: the 2006 PRSP (GPRS II), national trade policy, agricultural policy (FASDEP II) and two ECOWAS regional policies. The GPRS II is organized around three pillars, with agriculture-led growth made the core strategy on economic growth and poverty reduction in pillar 1.

The analysis concludes that on the whole there is a fairly high degree of consistency on positions, or mainstreaming, across Ghana's policy frameworks. This is attributed, to a large extent, to the GPRS II's "agriculture-led growth strategy". Consistent with this, the trade policy presents a balanced approach, with its two parallel strategies of "export-led growth" and "domestic market-led industrialization based on import competition". Primarily because of the second parallel strategy, trade policy is also consistent with agricultural and agro-industry policies. The trade policy provides for essential instruments for these productive sectors, e.g. selective protection, promotion of strategic products and sub-sectors, and safeguards against market disruption through import surges. Ghana thus provides a good model for other countries to learn from in formulating consistent and mainstreamed policies.

Ghana's national policies were formulated prior to finalizing ECOWAS policies (notably, the CET and the agricultural policy, ECOWAP). As a result, there is a need for revisiting the former so as to make them fully consistent with the regional policies. Potential inconsistencies noted in the case study are on national self-sufficiency goals (especially rice), the listing of "strategic" products in view of the ECOWAS list of sensitive products, and national food reserves and price stabilization objectives in an environment of a customs union.

The Tanzania case study utilizes seven policy documents, five of them national (the PRSP, trade policy, DTIS, agricultural policy, and the new Kilimo Kwanza ("Agriculture First")), and two regional (EAC trade policy and EAC food security strategy). The 2005 PRSP (NSGRP) is different from others in that it adopts an "outcome-based" approach where desired outcomes are specified first and followed by strategies, interventions, actors, etc. Trade and agricultural issues are discussed under cluster 1 outcomes. An important feature of the vision on trade is that external trade should stimulate domestic productive capacities and improve competitiveness. This is an important message but is not elaborated well.

Aside from that message, the NSGRP itself is fairly weak on trade content. This is also the view of an ODI review (Driscoll *et al.* 2007) which found that the NSGRP did not have many of the queried trade-related features and so was ranked much lower than other PRSPs reviewed. While lacking on trade issues, the NSGRP does acknowledge the trade policy and its implementation. On this, one question asked in the case study is to what extent a PRSP needs to be enriched on trade issues when there is also a comprehensive trade policy?

Five issues are selected for discussion in the Tanzania case study: targeting "strategic" products; protection and safeguard for import-competing products; role of the grain reserves; export taxation and incentives; and domestic subsidies and incentives. On the whole, the results on policy consistency are mixed, and there is an ample room for improvement in the next revisions of the policy documents.

Nepal's case study reviews at least five key documents, the PRSP and policies on trade (plus the 2003 and 2010 DTISs), agriculture, agribusiness, food security and industry. Nepal's PRSP differs from typical other PRSPs in that it is a periodic plan (the 11th plan) and looks similar in presentation and content to the previous plans, with numerous sectoral chapters. This makes mainstreaming challenging, i.e. to ensure synergy across policies. The study finds that while various policies share similar visions and goals, there is a substantive disconnect between trade and sectoral policies.

The focus of the trade policy (and the two DTISs) is exclusively on exports while issues on importables are not addressed. Agricultural and industrial policies are more balanced in addressing both sub-sectors. There is also some inconsistency in the listing of special or focus products, even within the trade policy and the 2010 DTIS. The 2009 trade policy lists 19 export products, nine of them agricultural. No such listing is found in the agricultural and agri-business policies while virtually all products are listed in the industrial policy. One question raised in the chapter is whether or not trade policy should be listing priority products that are in the domain of agriculture and industrial policies. This matters greatly for prioritizing public resources, including investment and incentives. The design of a PRSP is also an issue, notably whether it should be similar to the traditional plan or more focussed on 2-3 goals or outcomes as in Ghana and Tanzania.

The Sri Lanka study examines the experiences gained in the PRS process that began in late 1990s. In reviewing the PRSPs, or PRSP-like frameworks, the study illustrates how the political process has influenced the design and orientation of the goals and policies in these documents. For example, in one instance, although the main goal was strengthened focus on poverty, the reform measures mostly addressed exports and liberal economic policies, exactly as in the past. A large number of the CSOs promptly criticized the proposals.

By around 2005, the balance of the political position had shifted away from the previous exclusive focus on liberal policies and export-led growth towards a strategy that also stressed on non-export agriculture, poverty and the role of state. These positions are found in the current PRSP (Ten-year Horizon Development Framework 2006-2016). This strategy calls for refocusing attention to *inter alia* the farm sector and agro-industry, import substitution where required, a bigger role for the state, and active perusal of trade policies, but also recognizes that liberal policies are necessary for growth.

While the new PRSP stresses the need for a more stable and transparent trade policy for the food sector, trade policies in recent years have been fairly unstable (frequent changes in tariffs). This points to some serious challenges in mainstreaming trade policies. The source of this problem seems to be an over-reliance on trade instruments to address the interests of too many economic agents (producers, consumers and processors) at the same time, without making efforts to identify alternative non-trade instruments. This also points to the need for formulating trade and sectoral (agriculture and industry) policies together by the same team.

The Bangladesh case study examines trade policy positions in a series of recent documents: interim PRSP and 2004 PRSP; import and export policy orders; and national food policy. One question asked was whether the PRSP has shaped more recent policy documents impinging on trade policy. The interim PRSP was prepared under the constraints of time and adequate consultations and so a number of gaps were identified, one of them being lack of attention to future trade policy.

The trade dimension of the PRSP, and of the two trade orders, are found to have squarely focused on supporting identified export sub-sectors/products with the objective of generating jobs and reducing poverty. To that extent, the documents are mutually supportive and consistent. But when the interests of food, agriculture and agro-industry sub-sectors are considered, the treatment of trade policy appears rather narrow in both the PRSP and trade documents. Naturally, the concerns of these sub-sectors are addressed well by the national food policy, but it fails to articulate the support these sub-sectors will need from trade policy. In this sense, there is a disconnect between the two sets of policy documents. Lack of inter-ministerial dialogues and weakness in stakeholder consultations appear to be key reasons for the problem. Although no documentation was available in the public domain for review of these processes, notably the issues raised (and not raised), background works for this paper indicate that this seems to be the case.

4. Conclusions - towards mainstreamed policy frameworks

Section 2.2 listed several issues on trade mainstreaming. These were one set of questions asked in undertaking the country case studies. Additional issues were identified during the background works. What follows summarizes the key suggestions made in the country case studies with a view to improving the process of mainstreaming. The first two points address two substantive issues, mainstreaming and trade content in a PRSP, and the rest three make additional suggestions.

A sequential process of trade policy formulation improves mainstreaming

Trade agenda in modern times has become comprehensive. The volume on the Legal Texts of the results of the WTO Uruguay Round negotiations is 558 pages long, and, even for one agreement, the Doha Round draft Modalities for the Agreement on Agriculture is 108 pages. Likewise, the scope of Aid for Trade is very comprehensive. National trade policies similarly try to cover many topics.

But not all the elements of the trade agenda are divisive, nor mainstreaming a challenge or an issue in each and every case.

For example, on the first point, the trade agenda covers many topics such as trade facilitation (e.g. better customs), SPS/TBT (improved food standards), Green Box measures (irrigation, research, training), intellectual property rights, trade promotion, trade-related legislations, trade negotiations, and so on. These are mostly sector-neutral development activities that are essential for any economy, and it is relatively easy to reach a consensus, e.g. the state needs to deliver on or facilitate the provision of these services (and typically, more is better than less). The issue could be on prioritizing activities within each of these measures in view of the resource constraint but not on the provision of the service itself.

But this is not the case for many other areas such as on tariffs and contingency protection, export taxes and domestic subsidies. These are divisive issues within countries as are in the Doha Round negotiations. The two notable features of these policies are: i) these are divisive in nature with different views in societies; and ii) these are very product- and sub-sector-specific (e.g. protection for rice, subsidy for fruits). Many of the issues on mainstreaming discussed in the five case studies are on account of these two features.

For example, one recurring observation was the disproportionate attention given by national trade policies to exports and much less to import-competing sub-sectors (food, agro-industry) while agriculture and agro-industry policies, and to a large extent the PRSP, had a more balanced position. Thus, it is said in Ghana's 2004 trade policy that restrictions in the import regime can lead to investment in protected sectors rather than in sectors for which Ghana can be competitive. In trade theory, this idea comes from the Lerner Symmetry which essentially says (under some assumptions) that there should be no import protection at all for a fully export-oriented trade regime. Confusion or inconsistency arises when one policy document advocates an extreme form of export-orientation while others reject that. In Ghana's case, however, the national trade policy does not push this viewpoint to the extreme and there are trade provisions for import-competing sectors. What is important is that a PRSP needs to provide clear views on divisive issues like this so that subsidiary policies do not take different positions but reinforce the common view.

One of the important findings from the country case studies is that when it comes to trade policies for the productive sectors, a sequential process of policy formulation improves mainstreaming considerably. To start with, a PRSP needs to provide clear guidance and provisions on trade policy needs of the productive sectors, but it is not practical for a PRSP to get into the details. Therefore, in practice, the process should begin with sectoral policies (agriculture, agro-industry). It is here where specific needs for support from the trade side would be identified, including policy needs (e.g. an appropriate tariff structure for the product value chain) and support measures (e.g. investment, incentives). Identification of priority or special products and sub-sectors would also take place in the sectoral papers. Clear criteria will be needed for this work and these should be provided in the PRSP itself. These criteria could include, for example, contributions to growth and poverty reduction and food security, maximization of backward and forward linkages (as said in Nepal's PRSP), inclusiveness etc.[1] It is only after these details are determined that the trade policy should be worked out as a support policy. This sequential process should minimize many of the mainstreaming problems observed in the case studies. For example, this is one reason why there are often different lists of strategic or targeted products for special treatment in the 3-4 key national policy frameworks. This is also the reason why trade policies tend not to pay adequate attention to the needs of importables while the PRSP and sectoral policies do.

Two examples illustrate this approach. In the approach to the identification of the WTO Agricultural Special Products, the development objectives are specified first (e.g. food and livelihood security, rural development), at the same time taking into consideration the vulnerability of these sub-sectors to further tariff cuts. Although the Special Products negotiations in the Doha Round are limited to tariff only, it is expected that countries will also pay attention to other support measures required for developing the competitiveness of these products (this was indeed the underlying idea behind the original proposal for a Development Box in the Doha negotiations). The last step in this process is for the trade ministry to formulate a trade policy in support of the above needs, as well as to negotiate for the required policy space in the WTO. Ideally, this is also the approach to be followed in preparing a "negative list" for RTAs.

Another illustration would be the process followed in formulating the EU agricultural trade policies in the 1960s and 1970s. The process began with the Common Agriculture Policy (CAP). Given the goals and policies of the CAP, there was a need for a set of specific trade policies which were formulated subsequently. When the CAP policies were changed (e.g. in 1992 and 2003), trade policies were also changed accordingly. Thus, there was a specific sequence to the process followed and which ensured that trade policy was consistent with agricultural policy.

Improving the trade content in the PRSPs

In addition to ensuring mainstreaming, the question asked is how much of the trade topics should be covered by a PRSP? This is also an issue discussed in the case studies and also identified in PRSP evaluation studies (see Section 2.2). Four weaknesses in particular are identified: i) sparse coverage of trade policy issues in PRSPs (more so for agricultural trade issues); ii) little evidence of having considered alternative

[1] It is very common to find in trade and other national policy documents statements like "products and sub-sectors will be identified on the basis of comparative advantages in trade", or even "government will facilitate the provision of support to strategic productive sectors based on clear and transparent criteria", but rarely clarified and explained what these mean in practice. See one commentary below on this.

views/policy options; iii) imbalance in addressing the needs of both exportables and importables, often equating "trade" with "export"; and iv) inadequate attention given to trade-poverty linkages in policy choice. The Driscoll *et al.* 2007 review was based on 16 questions asked on the trade content, similar to the 2003 study by Hewitt and Gillson.

Being an apex development framework, a PRSP needs to address many issues and cover many areas, and so there is a limit to which it can devote space to trade issues. That is why typically there is a PRSP as well as a trade policy. In the case studies, with the exception of Nepal, the PRSPs do not have a separate chapter on trade policy but trade issues appear in several (typically 4-5) places, notably in sections on macroeconomics, private sector competitiveness, international economic diplomacy, and sectoral policies (e.g. agriculture and industry). It is difficult to say if that is adequate or not. The weakness does not seem to lie on the number of pages or wordage but on the quality of the messages provided, as discussed in detail in the case studies. Ideally, a PRSP should provide guidance on trade strategies and key trade policy issues and leave the details to the trade policy. To give an example, Ghana's PRSP is considered better than the other three (not counting Nepal)[2] in terms of the space or wordage on trade issues. Tanzania's PRSP devotes much less space relatively. But both are considered better than others on one very important basis – the guidance they provided was balanced in addressing trade issues in a holistic manner as both stress on the role of external trade in stimulating domestic markets and import-competing sectors. This is articulated even more clearly in Ghana's case with its "agriculture-led growth strategy" and two parallel strategies.

On the fourth point above, the case studies show that the PRSPs (and national trade policies) are fairly weak in demonstrating that trade-poverty linkages were considered in articulating strategies and policies. This was also the finding of the Driscoll *et al.* review of six PRSPs. The question again is how much of this can be done in a PRSP? Ideally, positions taken on trade policies in a PRSP are supposed to be based on poverty and social impact analysis (the PSIA), including stakeholder consultations, that would inform not only broader policy positions but also identify potential products/sub-sectors that contribute most to growth and poverty reduction and which need to be targeted for development. The conclusion from the case studies is that while it is not feasible for a PRSP to devote much space to these analyses, it is essential that a PRSP summarizes the findings to justify the positions taken, or not taken, citing the studies and making them available in the public domain. It is a fact that despite two decades or so of experiences with liberal economic policies, most societies continue to debate on the trade-poverty linkages.

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[2] Nepal's PRSP is also a traditional periodic plan and thus has many sectoral chapters, including one for trade. This differs from most PRSPs in other countries. The Nepal case study suggests that this format poses difficult challenges for ensuring mainstreaming.

A PRSP (and trade policy) needs to demonstrate that these debates have been considered. This will avoid policy reversals with each new government and thus contribute to improving consistency across policy frameworks. Effective stakeholder consultation is integral to this process.

Given the increasing significance of RTAs and regional policies, the case studies also review how the PRSPs and national trade and other policies have addressed these issues. The overall finding is that the current PRSPs and trade policies are fairly week on this point. In some cases, one reason for this is that the PRSPs and trade policies were formulated some years prior to new developments in regional agreements and policies (e.g. ECOWAS CET and ECOWAP for Ghana, EAC customs union for Tanzania). In South Asia, it seems that SAFTA is not considered to be of much significance for trade to be given attention. But Nepal's PRSP and trade policy should have given due attention to trade issues with India in view of the significant bilateral trade but that was not done. The conclusion is that the policy frameworks need to pay much more attention to regional trade issues than is the case now. This was also the finding of the Driscoll *et al.* review of the six PRSPs.

Improving the process of targeting strategic or priority products/sub-sectors for special treatment

Policy documents of all five countries (and many other countries too) reveal governments' desire to promote targeted sub-sectors and products, notably for exports. This is most explicit for Ghana, Tanzania and Nepal. In Ghana's GPRS II and trade policy, this is found in several places under different names - "strategic exports", products in the President's initiatives, promoting new areas of competitive advantages (cotton, oil palm and cassava starch), identification and targeting of specific sectors for development, and selective intervention to stabilize prices of strategic products. The ECOWAP/CAADP Compact also identifies a number of products (millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products) for intra-trade through regional value chains. As noted in Section 3 above, Nepal's trade policy has targeted 19 export products, nine of them agricultural. In the case of Tanzania, the PRSP calls for developing a detailed strategy focussed on specific products/services based on competitive advantages. The Kilimo Kwanza also supports such a strategy of prioritization. But other policy frameworks are less explicit on this, e.g. agricultural policy, the DTIS and trade policy. The EAC has also listed 31 agricultural tariff lines as being sensitive.

A number of comments can be made on this strategy. First, it is essential that all policy frameworks endorse that idea and importantly point to a similar if not identical listing. Second, the number of such products needs to be considerably reduced to avoid spreading "special treatments" too thinly. Third, the criteria for listing such products need to be clearly specified, most importantly in the PRSP itself, so that there is a minimum chance of list-reversals when new governments come or to avoid political pressures favouring one product over other. And fourth, there is a lack of clarity and/or specificity on the special treatment to be accorded to these products, both in terms of policy (e.g. tariff protection, export tax, VAT) and investment at various points in the value chain.

Stakeholder consultations need to be much more effective for improving mainstreaming

While stakeholder consultations are becoming the norm for policy formulation, what makes these processes effective is their quality. All case studies discuss consultations to a varying extent, including in the papers on trade policy and support measures. Considerable efforts were made in the case studies to document the quality side of the consultation. In addition, for Nepal and Sri Lanka, separate background studies were undertaken on the issue of the use of analysis or evidence in that process.

To summarize those observations, while the dates and venues of many of those meetings held in the past could be obtained, there was virtually no record (available for review) on the quality side. In one case, Ghana, a trade policy "Options" paper was prepared that recorded alternative views on all policy issues covered (e.g. whether or not to tax exports). During the background works in the five case study countries, alternative views on policy issues were voiced in such consultations, which also reveal that all societies do have different views on issues but are not always listened to in the formal consultations. The problem is with the process followed for the consultations. Two problems in particular need to be addressed. One is to ensure that the process is inclusive, i.e. all important stakeholders having different views are invited. The second is for the organizer to do more home work, namely prepare briefs/analyses outlining alternative positions and their implications, and make these briefs available to participants before the meetings.

These weaknesses also apply to inter-ministerial/agency meetings. The case studies show that the quality of participation of the ministries/agencies other than the lead ministry is typically poor. This could be for a number of reasons - limited interest on the subject of the official attending, position of the official attending (e.g. a junior officer while the rest are senior, thus limiting participation in the discussion), lack of familiarity due to poor preparation, lack of background analyses on the issues discussed, and so on. These were systemic weaknesses of the process in all five country cases. This is also a problem that is not too difficult to overcome.

Need for clarifying terminologies used in various national policy papers

The case studies show that one of the reasons for some inconsistencies across national policies is the use of concepts and terminologies that are not clearly defined and thus variously interpreted by stakeholders, including different ministries and the private sector. One example is "comparative and competitive advantages in trade", terms that the trade policies in all five countries have used but not defined. Another is "food security" which perhaps tops the list of such misunderstood concepts. The concept is understood variously, notably national self sufficiency by some and household economic access to food by others. These two interpretations do have very different policy implications. In one national policy document, it is said that export restrictions will be justified for food security. The ECOWAP uses the term "food sovereignty" without defining it clearly. Highly divisive debates have taken place on trade and food security when linked to food sovereignty. Mainstreaming suffers when different people interpret the terms differently.

The following is a sample of some commonly used terms and concepts found in various policy documents that are not defined clearly (emphasis added): *"protecting sensitive industries", "ensure a reasonable level of protection", "protection to all domestic producers on a sectoral basis", "special, sensitive and strategic commodities", "NTBs may be resorted to on the basis of social welfare", "food security could be one of the criteria to justify export controls", "government will facilitate the provision of support to strategic productive sectors based on clear and transparent criteria", and "improving competitiveness of agro-processing through economies of scale production and improved technology"*.

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Trade-related support measures - Synthesis of the country case studies

Ramesh Sharma and Jamie Morrison

1. Introduction

Following up on the previous two chapters on trade policy and mainstreaming, this chapter presents a synthesis of the findings on trade-related support measures (TRSMs) in the five country case studies. As is the case with the country studies, this chapter also needs to be read together with the previous two chapters because of the logic that TRSMs need to be fully consistent, or mainstreamed, with trade and other policy frameworks.

The next section explains why the case studies used the term TRSM rather than the more well-known concept of Aid for Trade (AfT) measures. Section 3 introduces the five case studies. Section 4 then summarizes several key findings in the form of lessons learnt or as guidelines towards improving the process of articulating TRSMs. This is also a contribution to the efforts underway in operationalizing the global AfT initiative at the country level.

2. The concept of trade-related support measures in the case studies

The case studies in this volume use the term TRSMs instead of AfT. There were two main reasons for this. The first reason is that AfT is about external funding to trade support while TRSM does not make that distinction and covers all support measures that a government provides or should provide irrespective of the source of funding. Thus, many trade-related incentive measures or subsidies are granted by governments through their own resources and there is no reason why this should be excluded from the analysis. The second difference is that TRSMs are meant to cover all tradable products, including importables, that require support from the trade side whereas AfT is often seen as support to exports, although this is not clear from the report of the 2006 WTO Task Force on AfT. In that report, there are several places where it is explicitly and clearly stated that AfT is for exports,[1] but then one could also argue that AfT is intended to cover all sectors in view of the emphasis given throughout the report on growth and poverty reduction goals and references to the PRSP process.

Aside from these two points, there is really no difference between the term TRSM used in this volume and AfT. Thus, on scope, the six AfT categories in the Task Force report are broad enough to cover everything. Its "building productive capacity" category covers agriculture and industry in their entirety and so this is not an issue. Likewise, on the underlying approach, the AfT operationalization at country level calls for articulating support measures from within the PRSP and other policy processes, and this is also the approach used for analysing TRSMs in the case studies.

The definition and scope of the AfT as recommended by the Task Force was also discussed during the conduct of the country case studies, especially in expert and stakeholder meetings. It was not found easy to delineate what is AfT and what it is not, as also noted in several recent papers on AfT.

3. Introduction to the five case studies

Although all five case studies on TRSMs had the same Terms of Reference, the papers differ in some respects for reasons such as the availability of statistics on TRSMs, materials for review and analysis, and the outcome of stakeholder consultations. In a way, this was useful as this brings out different perspectives on various issues. What follows introduces the papers from two standpoints: i) the information and literature used; and ii) the structure of the papers and analyses undertaken. On the former, the following are the main sources of information used: the OECD/CRS data on AfT flows, similar statistics from national sources, the Diagnostic Trade Integration Study (DTIS), WTO notifications on domestic support measures, and agricultural investment outlays. Indeed, all case studies began by trying to review the current status on TRSMs or AfT flows but this was not possible in all cases as noted below.

[1] For example, the following is said in the rationale section of the Task Force report, "Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access".

On the second point above, the underlying analytical framework for all five case studies is identical, which is to review the current process of articulating and prioritizing TRSMs. The key word is process, rather than numbers or quantification of the flows. Accordingly, the starting point is the review of key policy documents. In the context of this paper, these are policies on development (PRSP), trade, agriculture, industry and food security. Although this was also the approach taken in the mainstreaming case studies, the focus here is on support measures, programmes and projects. Within this broad framework, national analysts were free to organize the analysis and focus of the papers, hence some differences in the way the papers are finalized.

Nepal's case study has two main sections. The first reviews current practices for identifying TRSMs in the more trade-related areas traditionally led by the \ Ministry of Trade, with national trade policy and two DTISs, and the IF/EIF process as the main sources for the analysis. The second section focuses on agriculture, reviewing one past national programme that sought to develop a number of high value commodities to be driven by market demand and trade, and two ongoing agricultural commercialization projects. These are all processes led by the agricultural ministry. This analysis of the trade side on the one hand and agriculture on the other was useful because the success of the trade policy, as far as several agricultural commodities identified as priority products is concerned, depends on the effectiveness of the process led by the agriculture ministry. It also notes that there are weaknesses in this articulation process and challenges to be overcome for mainstreaming and prioritizing TRSMs.

Ghana's planning framework at the strategic level is very impressive and is the most advanced of the five cases in view of the availability of a series of linked and largely consistent policy frameworks – the PRSP (GPRS II), trade policy and its implementation plan (the Trade Sector Support Programme or TSSP), and agricultural policy (FASDEP II) and its implementation plan. The PRSP itself is designed around some core objectives, with the inputs of all productive sectors focussed on a single pillar with its strategy of "agriculture-led growth". All policy frameworks stress the role of markets, competitiveness and enabling private business environment as the way forward, and, unlike the case found in some other countries, the food sector is given its due prominence.

Not being an LDC, Ghana does not have a DTIS, but its TSSP, which resembles the Action Matrix of a DTIS, compensates for that. The TSSP has formulated 26 projects and numerous outputs and activities within them. These are comprehensive and cover all trade development projects, including for importables. In agriculture, Ghana's Agricultural Sector Plan *(2009-2015)* provides details on investment areas and projects. Being a recent work, these are also aligned to the priorities of the GPRS II. For this reason, the prospect of the TRSMs being mainstreamed within the GPRS II is best for Ghana of all the case studies. One weakness noted in the case study was in addressing the issue of targeting "strategic" sub-sectors/products for special treatment. The list of such products seems to be too long to be effective enough for prioritizing TRSMs. Also not very clear are the special treatments that will be accorded to these identified products. Some more work is needed in addressing the issue of special or strategic products.

The Tanzania case study stands out among the five in terms of the use of the AfT and TRSM database from various sources. It reviews three sources of data: i) the OECD/CRS data; ii) AfT/TRSM flows using national sources arranged as per the DTIS Action Matrix; and iii) agriculture sector outlays. Together, these provide a good picture of the current situation and also issues.

Tanzania's PRSP (the NSGRP) is considered relatively weak on the trade side, but then it endorses the trade policy which is comprehensive. According to the NSGRP, external trade is not just about exports but should also be a force for stimulating domestic productive capacities and competitiveness. This leads to the emphasis on value chains, shifting the focus to commercialization and trade rather than to just primary production. It is also balanced in the sense that high importance is placed on both the export and food crops, including value chains of processed foods for domestic and regional markets. The budgetary outlays on agricultural investment show that donor and government support is focussed on primary production, and so the strategy calls for spreading support across the value chains.

In the light of these provisions in the PRSP, and trade and agricultural policies, the exclusive focus of Tanzania's DTIS on export products is misplaced. But otherwise the DTIS is a solid contribution to a well-articulated *export* strategy. A more recent attempt to articulate trade and agricultural policies, the Kilimo Kwanza ("agriculture first"), is relatively balanced in the prioritization of strategic products for growth and poverty reduction. It also seeks to promote Tanzania's potentials for growing surplus food and exporting to regional markets. The regional EAC policy frameworks push the idea of intra-EAC trade and have proposed new activities for regional value chains, especially of food products. The target is to double intra-EAC trade in food to 30 percent by 2015.

The Sri Lanka study also made some use of the OECD/CRS database to start with but the information on AfT flows was incomplete and thus misleading. No corresponding flows from national sources could be put together as statistics are not easily accessible. Not being an LDC, there is no DTIS either. This case study is somewhat different from others in that, aside from covering some broader cross-cutting issues, the analysis of constraints and potential interventions are illustrated using two value chains, vegetables and coconut kernel products. The study also provides a critical review of the 2004-08 National Export Strategy (NES), which is the main document for identifying constraints to exports and policy responses. It is also prepared through a multi-stakeholder dialogue.

The analyses of constraints and required interventions for the two value chains illustrate the added value of using the value chain framework for articulating TRSMs. Although a majority of support needs are product-specific (e.g. drip irrigation for vegetables), the value chains also point to many common solutions, e.g. constraints imposed by land and labour policies. While the NES is the main document on TRSMs for export products, it is considered to have taken a top-down approach with limited continuity and weak record in implementation. This needs to be reversed with a bottom-up planning approach, and the best way to do that is through value chain analysis which brings out critical micro-issues often overlooked. Stakeholder consultations should be an integral component of this process.

The Sri Lanka case study mostly discussed export products but acknowledged that there are also corresponding important issues on importables, notably the foodstuffs, that deserve attention of the TRSMs. It notes that export crops received a heavy focus in the PRSPs and trade policies since 1977 and it is only in the latest PRSP, since about 2005, that traditional agriculture and foodstuffs have received considerable attention. It is therefore essential that food issues are also brought within the ambit of discussions on TRSMs or AfT. This would require a TRSM strategy for foodstuffs similar to the current NES for exports.

Despite being an LDC, Bangladesh did not undertake a DTIS. Instead, the case study reviewed the country's WTO notifications on domestic support measures, which were fairly detailed, and a trade Taskforce Review by the WTO Secretariat in 2003 which had information similar to the Action Matrix of a DTIS. It detailed major actions taken and/or decided upon by the government for the development of trade and agro-based industries. In addition, several background studies were commissioned covering export incentive schemes and constraints to the export of vegetables and shrimps.

Consistent with the observations made in the case study on trade policy that export promotion received major attention in both trade policy and trade literature, the identification of TRSMs has also been predominantly focused on export promotion. However, the picture that comes out from a review of the totality of agricultural support outlays is somewhat at odds with this focus in policy documents because import competing foodstuffs do receive significant support in the form of fertilizer subsidies, irrigation and research.

The domestic support data show that for recent years, outlays on the WTO-defined trade-distorting subsidies (Amber Box) not only exceeded investment (Green Box) but also grew faster. Economists generally favour investment to subsidies and striking the right balance between the two is a long-standing issue. This is also a TRSM issue, given that resources are limited. The analysis of the Actions in the trade Taskforce Review showed that there were one or more incentive measures (tax breaks, duty reductions, cash incentives etc.) provisioned in 14 of the 19 Actions.

Incentives are also a divisive issue. One issue is their effectiveness; the other is prioritization. Some of the background studies prepared for Bangladesh provide interesting discussion on these issues.

4. Towards articulating mainstreamed TRSMs

This section synthesizes key suggestions made in the country case studies. These are meant to contribute to improving the current process of articulating TRSMs so that these are adequately mainstreamed within the trade and development policy frameworks. These observations also respond to some of the weaknesses identified in the rapidly growing literature on AfT.

Addressing the challenge of mainstreaming TRSMs in the PRSP and other policy frameworks

This was also an issue addressed in Chapter 3 where the focus was on mainstreaming trade policies in development frameworks. The context here is mainstreaming TRSMs, i.e. ensuring that the identification and prioritization of TRSMs is consistent with strategies and policies in the PRSP and other policy frameworks. As the issue is similar, the following discussion is relatively brief.

The trade agenda in modern times is very broad. This is obvious from the range of the issues covered by the WTO Agreements and also many national trade policies. This is also true of the TRSMs, e.g. the six broad categories of support measures identified by the AfT Task Force.

The TRSMs may be categorized into two groups. The first group would include measures that are traditionally more trade-related as well as sector-neutral development activities. These include, for example, trade facilitation (better customs), trade negotiations, trade-related legislations, trade promotion, intellectual property rights, facilitating SPS/TBT enquiries, and so on. In terms of the AfT categories, these would mainly be categories (i) and (ii) (trade policy and regulations, and trade development). These are activities traditionally led by the ministries of trade, essential for any economy, and not considered divisive in the sense that the debate is over whether or not to deliver these services (and typically, more is better than less). The issue could be on prioritizing activities within each of these measures, e.g. which and how many customs offices to be modernized, but not so much across these services.

The second group of the TRSMs would include activities that are product- and sub-sector- specific and require difficult policy choices and prioritization. An example of this from the discussions on trade policy and mainstreaming (Chapters 2 and 3) is support measures for prioritized strategic or special products found in PRSPs and trade policies. For example, Nepal's trade policy has identified 19 such products for export development, about half being agricultural. This process already involved one round of prioritization of the TRSMs (i.e. in committing resources to these and not to others). Working out support measures and incentives for each of them will entail the second round of prioritization. Resources have opportunity costs and a mistake made in the first round (product identification) will magnify such costs as one moves to further rounds. It is precisely for this reason that the case studies devoted considerable attention to the issue of mainstreaming.

The conclusion drawn on this issue in Chapter 3, "when it comes to trade policies for the productive sectors (agriculture, agro-industry), a sequential process of policy formulation improves mainstreaming considerably," also applies equally to TRSMs. In other words, the process of identifying priorities and associated TRSMs should begin in sectoral policies (agriculture, agro-industry), based on clear criteria that should ideally come from the PRSP itself. If done thoroughly, e.g. within a value chain framework, the identified TRSMs will include both the trade-related measures (e.g. incentives for value addition and exports, appropriate tariff structure for inputs and competing outputs, trade promotion etc.) and non-trade measures (e.g. agricultural research, extension, rural roads etc.). A good analysis should also point to the trade offs and complementarities. The role of the trade policy should be obvious by then, which is to ensure that the identified TRSMs are adequately provisioned. This sequential process should minimize many of the mainstreaming problems noted in the case studies.

Ensuring that the TRSMs are channelled to both exportables and importables in a balanced manner

One substantive conclusion reached in all five case studies is that there is a risk that import-competing agriculture and agro-industry may not receive as much attention as these sub-sectors should receive in the allocation of the TRSMs, especially the AfT resources. The risk comes from the fact that national trade policies, including the DTIS where formulated, tend to disproportionately focus on exports and much less on import-competing agriculture and agro-industry. Although there are separate sectoral policies and support measures for agriculture and agro-industry, trade policies need to be balanced in providing support to all important economic activities. The PRSPs, on the other hand, are typically balanced in according due importance to the two sub-sectors.

The Ghana case provides a good example of an approach that could lead to a balanced outcome on the TRSMs. For agriculture, following up on the guidance provided in the PRSP, the strategy consists of six elements. The first element targets high-value agricultural exports with a view to generating incomes, while the second element targets production and marketing of food crops with a view to reducing poverty and food insecurity (the other four are support elements). These are also the two parallel pillars outlined in the PRSP and national trade policy. In contrast, the focus of Nepal's trade policy and the DTIS is exclusively on exports. All 19 products or sub-sectors identified for special attention are export products. The argument given is that Nepal's trade policy should focus on exports in view of its small domestic market. While not incorrect, this view is not fully consistent with the guidance in the PRSP and also not responsive enough to the problem of surging food imports in recent years. Trade policies, including TRSMs, have important role to play towards decelerating this trend.

In Bangladesh too, most of the actions under the 2003 Task Force Review on trade policy had an almost exclusive focus on exports, to the extent that the heading under which most of the agriculture related measures were listed is "Development of Export–Oriented Agro-based Industries". In Tanzania, the focus of the DTIS, including the support measures provisioned there, is exclusively on exports, a position that is not consistent with that in the PRSP, nor with the widely held view in the country that Tanzania has a comparative advantage in producing surplus food and exporting to the region. The EAC regional trade and food security policies also call for mobilizing TRSMs for this strategy.

This relative neglect of the food sector *vis-à-vis* export crops during the past two decades or so is being recognized, more so following the 2007-08 global food crisis. Follow-ups to the current trade policy frameworks, including the DTIS where applicable, need to be more balanced.

The right balance between investment and subsidy

This is an issue more applicable to productive sectors like agriculture and industry than to trade, and is a longstanding development issue and a dilemma facing policy makers. In many developing countries, large amounts of budget are often allocated to fertilizers and other subsidies. These subsidies compete with investment on areas such as irrigation, rural roads and infrastructure. Many studies show that investments have higher rates of returns than subsidies and are essential for building productive capacity. This lesson needs to be reflected in programming TRSMs.

The five case studies address this issue to some extent. The reviews show that all the major policy frameworks have provisioned an array of both investments and subsidies or incentives. In some cases, it appears that subsidies are substantive relative to investments. Bangladesh's WTO notifications on domestic support measures show that during 2001/02-03/04, 46 percent of the total notified support was for fertilizer subsidy and 54 percent for general services (research, extension, irrigation etc). The budget allocation in 2005/06 for subsidies and other assistance to the agriculture sector has doubled. Bangladesh's case study also shows many incentive schemes (like cash subsidies for exports).

There is a serious dearth of analyses on these issues and so it is not easy to offer more nuanced suggestions. But given the wide range and varieties of the TRSMs of this nature in the national policy papers, some serious analytical work is essential. Such analyses and debates that follow should focus on determining the relative effectiveness of investments and subsidies, including their appropriate mix, in relieving some given constraints, e.g. to reduce the marketing cost of a product. A product value chain is the appropriate framework for such an analysis (see below).

Articulating effective "incentives" measures

Aside from the issue of striking a fair balance between subsidies and investment, identifying the right types of incentive measures (including revenue foregone) is another issue. This topic falls very much within the scope of TRSM or AfT, in view of the prominence given to such measures in the national trade, industrial and agricultural policies. All five case studies discuss this subject in varying detail. In Nepal's case, for example, one or more incentive measures are provisioned for all 19 prioritized export products. Similar provisions are made in industrial policy. The policy documents do not explain well the basis for having these specific measures, nor are there independent studies that evaluated the effectiveness of these measures in the past. In the case of Bangladesh, one or more incentive measures (tax breaks, duty reductions, cash incentives etc.) are provisioned in 14 of the 19 actions identified in the Taskforce Review. Likewise, Ghana's TSSP includes a number of incentives and dedicated funds such as export incentives, subsidized loan facilities, incentives for private sector investment in infrastructure and so on. Tanzania's trade policy also has a section on trade development instruments, with similar provisions as above.

Articulating appropriate incentive measures is a challenge facing all policy makers. Two challenges in particular appear prominent: i) determining which measure is most effective for specific products; and ii) determining the rate of assistance or subsidy. While (i) is an obvious challenge, the second is also important. For example in Nepal's case, if incentives are to be provided to all 19 export products as provisioned, given the overall budgetary constraint, the rate of incentive is most likely to be so small to be ineffective. The alternative is to focus incentives to even fewer products, but this will have to be handled carefully because there will be political pressures to favour one product over the other (e.g. tea over ginger). These are difficult policy issues and are unlikely to be articulated satisfactorily without some serious analytical work, especially evaluation studies of past assistance, and learning from best practices in other countries.

Articulating support measures within a value chain framework for a balanced identification of TRSMs

The focus of the traditional agricultural programmes has been typically on primary production and accordingly the bulk of the budget is directed to that end. That view is changing rapidly. There is a recognition in all five case study countries (and elsewhere) of the importance of taking a holistic view while identifying and relieving constraints along the value chain. This follows from what is said to be a paradigm shift in the agricultural development approach consisting of commercialization and market-driven production. For example, it is remarked in the Tanzania study that currently there are very few donor supported projects that covered the whole agricultural value chain. But the need for de-concentrating current support in primary production towards other phases of the value chain has been recognized and expressed clearly in the policy documents. The Nepal case study also illustrates this shift through two large-scale agriculture commercialization projects. About a dozen value chain studies have been undertaken under one of these projects and interventions are being designed for all phases of the chain. The Ghana study illustrates some new approaches being tried that rely on value chains as the organizing framework. These include Agricultural Value Chain Facility under the DANIDA project SDSD II and the Strategy Framework for Agribusiness Development in Ghana, proposed for USAID by a study team. It is also claimed that these initiatives and approaches are anchored to national development strategy like the PRSP. The Sri Lanka study also illustrates for vegetables and coconut kernel products the effectiveness of a value chain approach in identifying constraints and required interventions.

The above discussions on investment versus subsidies (and the judicious combination of the two) and incentive schemes also illustrate the importance of a value chain framework for articulating TRSMs. There are important trade-offs between various forms of interventions and also complementarities in attaining some given objective and these can be identified only through a holistic approach to product development.

Stepping up of bilateral and regional projects and programmes

Some of the constraints to trade facing the case study countries, like others, are regional, sub-regional and cross-border in nature, and so cross-border infrastructure and regional policy cooperation should be an integral part of the process of articulating TRSMs. All five case study countries are members of one or more regional trade bodies (RTAs), with Tanzania already within the ECA customs union and Ghana moving in that direction in ECOWAS. The Ghana study discusses a recent ECOWAP-CAADP Regional Compact. Formulated in the context of the 2007-08 global food crisis, a regional initiative for food production seeks to promote value chains for selected food products with a view to enhance intra trade and reduce food imports. In South Asia, regional initiatives are being promoted under the auspicious of SAARC, beginning in 1996 with the first funding mechanism called *South Asian Development Fund* (SADF). In 2008, a *SAARC* Initiative *on Regional Food Security* was launched with a view to formulate regional projects with the assistance of the ADB, Manila. By 2010, work was underway to develop five such projects, including (in the area of trade) upgrading of food safety in SAARC Member States, and institutionalization of SAARC mechanisms for the control of trans-boundary animal, aquatic animal and plant diseases.

That more needs to be done at the regional level is not a divisive issue but an important observation to note. There are two issues to be addressed. One is to open the way for multilateral lending agencies to provide loans to regional projects. This requires individual members of an RTA to work together to formulate regional projects. The lending agencies may also need to put more efforts into this. A second issue relates to a criticism that national PRSPs have given very little attention to regional approaches. This is true for now but should change in the future PRSPs. In Africa, some of the most recent developments in RTAs (e.g. the ECA customs union) happened after their current PRSPs were formulated. The next round of PRSPs will need to devote attention to this.

Effective stakeholder consultations for articulating TRSMs

The importance of stakeholder consultations in formulating trade and development policies and in ensuring that they are mainstreamed has been stressed in all case studies. This also applies equally to articulating TRSMs because appropriate TRSMs can only result from appropriate policy frameworks. Such consultations are now held routinely for these activities; the issue is one of their effectiveness. The current weaknesses of this process and suggestions made for improvement were summarized in Chapter 3 on mainstreaming policies. Briefly, two weaknesses were stressed. One is that the process is still not inclusive enough, i.e. not all stakeholders holding different views are invited in such meetings. This is one reason why policy documents are often not consistent on key policy positions and priorities. The other weakness is that such meetings are organized rather poorly, without the benefit of prepared analyses and briefs on alternative positions and their implications. As a result, inputs from participants are often lacking. Importantly, these weaknesses also apply to inter-ministerial/agency meetings. In addition to these processes at the centre or policy level, there is a need for stepping up of effective stakeholder consultations at the micro level. The appropriate framework for this is product value chain because it brings together all economic agents and their problems and concerns. This is also the appropriate forum to discuss trade-offs involving policies and support measures (investments, subsidies and incentives). As an example, the value chain works underway in the two agricultural commercialization projects discussed in the Nepal case study provide excellent platform for this type of analysis and learning.

Quantifying TRSMs or AfT for the purpose of prioritization and monitoring progress

Although the primary focus of the country studies was to understand the *process* of articulating TRSMs, benchmark statistics on the current level and distribution of TRSMs were also considered essential for this work. For this reason, some efforts were made in all case studies to compile and quantify TRSMs or AfT flows. This proved to be difficult as information was simply not easily accessible in key ministries. To make up for that, some studies used the OECD/CRS database on AfT, recognizing that this only covers donor support and not the full range of the TRSM. Some of the issues with the OECD/CRS data are discussed in the Tanzania case study. Besides not covering all TRSMs in the country, the AfT data miss out on the details where aid is not allocable by sub-sectors. This data might even significantly under-estimate aggregate AfT flow if general budget support (GBS) provided to countries is not included in that database, as is suspected in some cases. Even at the country level, it is difficult to uncover and disaggregate the GBS support to various areas until after some years.

When the objective is not just to monitor the flow of the AfT over time but to link that support to priority areas and needs, statistics need to be much more disaggregated. For example, the review of PRSP and trade policies shows that one of the strategies in all five countries is to focus resources on targeted priority products and sub-sectors. In Nepal's case, nine of the 19 such products are agricultural. To implement that strategy of prioritization, it is essential first of all to benchmark the current levels of support to all these products (and also to other products not targeted because the overall resource is limited) and then only work towards reallocations. Likewise, the review of the trade and agricultural policies show that in order to enhance trade competitiveness, governments have committed to put more efforts on the upstream phases of a product's value chain. For this too, it is essential first to understand where current supports are focussed. These are not going to be easy and will require special initiatives to benchmark current flows, reallocate them according to priorities and monitor the progress.

In addition, some discussions were held during the studies on the concept and scope of TRSMs. The WTO Task Force has identified six categories for AfT: i) trade policy and regulations; ii) trade development; iii) trade-related infrastructure; iv) building productive capacity; v) trade-related adjustment; and vi) other trade-related needs. In those discussions, there was some uneasiness with the idea of aggregating the more trade-related areas (i, ii, v and vi) with the rest (iii and iv) in order to come to an aggregate measure of the AfT or TRSM. It was also noted that it will be very difficult to reach a consensus on the "trade content" of the numerous activities within (iii) and (iv).

One suggestion made is that a more practical and useful exercise would be to consider the following three categories *separately* for the purpose of monitoring and review: a) trade development (AfT categories i, ii, v and vi); 2) building productive capacity (AfT category iv, *separately* for the main sub-sectors, e.g. agriculture, industry); and 3) infrastructure (category iii). But even here, as said above, statistics need to be disaggregated to be useful for programming TRSM.

5

1. Introduction
2. The trade policy environment
3. Self sufficiency in grains
4. India and rice trade policy
5. Export promotion
6. Conclusions

5

Bangladesh - Agricultural trade policy issues

Jamie Morrison and M. A. Rashid

1. Introduction

This paper investigates several characteristics of Bangladesh's agricultural trade and associated policy interventions with the objective of highlighting the complexity of existing processes of policy articulation.

It draws upon a series of papers developed or commissioned by BSERT, Bangladesh Agricultural University, on different aspects of trade policy formulation and implementation. It is not intended as a comprehensive overview of trade and related policy reforms over the past few decades, nor of the aggregate levels of support or taxation of the agriculture sector as a result of these policies. These aspects are presented in detail in recent publications such as Ahmed et al (2007) and Centre for Policy Dialogue (2008).

Rather, the paper first identifies a series of issues for further examination: (i) the pros and cons of a trade policy regime which, although significantly more liberal than it was two decades ago, still provides a relatively high level of protection to the agriculture sector; (ii) the argument for self sufficiency in grains production and the associated policy implications; (iii) the particular use of trade policy instruments in the rice sector to respond to/adjust to decisions by major exporters such as India on their market and trade interventions; and (iv) the focus on, and bias towards, export promotion in agricultural trade policy and the impacts of the instruments used in support of its implementation.

An important objective of the paper is also to assist in the identification of trade support measures and in understanding the relationship between the formulation of trade policy and broader strategies of poverty reduction. The insights gained are presented in two associated chapters. The extent of mainstreaming of trade policy and the required support measures into poverty reduction processes are examined in the next chapter. The subsequent chapter then considers the processes through which these "cases" relate to the issues of identification of appropriate support measures. It also comments upon questions related to the articulation of domestic trade (often neglected in discussions of trade policy and associated support measures), focusing on the provision of physical infrastructure.

2. The trade policy environment

The most recent WTO Trade Policy Review for Bangladesh (WTO, 2006) noted the pursuit of an outward oriented growth strategy and efforts to reduce the anti-export bias. A significant number of non tariff barriers (such as quantitative controls) have been dismantled since the early 1990s and there has been a shift to greater use of ad valorem tariffs. Tariffs currently account for approximately 25 percent of tax revenue.

The strategy had been associated with a dramatic opening of the economy to trade, with the trade openness index (exports plus imports divided by GDP) having increased only relatively slowly from 13.5 percent in 1981 to 16.8 percent in 1991, but then rising rapidly through the 1990s and 2000s to reach 43.32 percent in 2007 (Alam, 2007, Table 1).

This degree of openness is also reflected in the trade deficit in agricultural products which increased dramatically from USD 354 million in 1980 to USD 5259 million in 2009 (of which the trade gap for food items rose from USD 376 million to USD 4002 million). The total real value of agricultural imports increased by 2.1 percent per annum between the 1980s to mid 2000s, compared to agricultural exports which increased more slowly at an annual rate of 1.4 percent. Key imports included raw cotton (a function of a 25 percent subsidy to the export of ready made garments), edible oil, wheat, rice, sugar, and milk.

Also noteworthy is that, as reported in Ahmed *et al.*, (2007), citing Bakht (1999), illegal imports from India constitute about 20 percent of total recorded imports. Of these, 42 percent is accounted for by cattle, 7 percent by sugar, 6 percent by pulses, 3 percent by milk powder, 3 percent by spices, and 2 percent by rice.

At the same time, agricultural trade policy, particularly with respect to certain commodities, may be considered rather restrictive. The average agricultural tariff (unweighted) in 1991/92 was about 77 percent, but by 2004/05 had fallen to 20 percent. In addition, the tariff dispersion was reduced when the tariff structure was simplified to four tiers. However, with the growing use of para tariffs, by then equivalent to about 13 percent, the average protection over all

TABLE 1:
Trade Information and economic openness of Bangladesh (1996-97 to 2007-08)

Period	Export	Import	Trade volume	GDP in current price	Economic openness	CPI at national level (Base year 1995/96)
1996-97	18 813	30 540	49 353	180 701	0.27	104
1997-98	23 416	34 183	57 600	200 177	0.29	113
1998-99	25 491	38 480	63 971	219 697	0.29	121
1999-00	28 819	42 131	70 949	237 086	0.3	124
2000-01	34 859	50 371	85 230	253 546	0.34	127
2001-02	34 366	49 049	83 415	273 201	0.31	130
2002-03	37 915	55 918	93 833	300 580	0.31	136
2003-04	44 827	64 257	109 084	332 973	0.33	144
2004-05	53 234	80 895	134 129	370 707	0.36	153
2005-06	70 746	99 130	169 876	415 728	0.41	164
2006-07	84 100	118 490	202 590	467 497	0.43	176
2007-08	96 800	148 372	245 172	545 822	0.45	194

Source: Shamsul Alam (2010), based on government statistics. Note: One Crore Taka is equivalent to 10 million

agricultural tariff lines remained relatively high at about 33 percent. This level needs to be considered against weighted applied average tariffs in developing countries as a whole of about 24 percent and in industrialized countries of about 14 percent (FAO 2005).[1]

The para tariffs[2] accounted for about 40 percent of the unweighted average protection level by 2004/05 and were applied to 21 percent of tariff lines (agricultural and non agricultural). The government can decide whether to impose a 15 percent, 35 percent or 90 percent supplementary duty on top of the normal duty. For example, the supplementary duty on processed seafood was increased from 35 percent to 88 percent between 1997/98 and 2003/04, and on milk powder from 47 percent to 62 percent (World Bank 2004). With a bound tariff for agriculture set at a uniform ceiling of 200 percent for all agricultural goods except for 13 for which it is set at 50 percent, Bangladesh has significant discretion to increase applied rates towards these ceilings.[3]

[1] Care should be taken in comparing average tariffs across countries, as explained in detail in FAO (2005)
[2] License fees, regulatory duties, infrastructure development surcharge, supplementary duties, protective VAT
[3] Only on green and black tea have applied tariffs exceeded the bound rates

Bangladesh also has an active trade policy with respect to exportables, with policies supporting export promotion in a number of products such as fresh vegetables and shrimps (see section 5).

In addition, levels of protection and support afforded to different products are highly variable.

The mixed pattern of intervention is reflected in various indicators of protection and support discussed in Ahmed *et al.* (2007) and in Rashid (2009a). Ahmed *et al.* focus on the NRA, which captures the proportional extent to which government imposed distortions create a gap between domestic prices and free market prices. Figure 1 depicts trends in the NRA for selected products reflecting different export and import stances.

The NRA for jute, a traditional export, has remained fairly constant over the 1974 to 2000-05 period, at around -30 percent, as a result of jute pricing and trade policies. Domestic prices have been consistently below world prices, in order to provide low cost inputs to the processing sector, accentuated by a ban on raw jute exports in the mid 1980s which depressed farm gate prices to 74 percent of the world price level.[4] The NRA for wheat has gradually declined from a positive 38.9 percent in 1974 to -0.3 percent in 2000-04, whilst that for rice has fluctuated widely between -25.7 percent in 1974 to 24.4 percent in 1985-89 and back to 6.1 percent in 2000-04. By contrast, the NRA for sugar (not shown in the graph) has remained at high levels, for example 73.7 percent in 1974, 436 percent in 1985-89 and 223.9 percent in 2000-04.

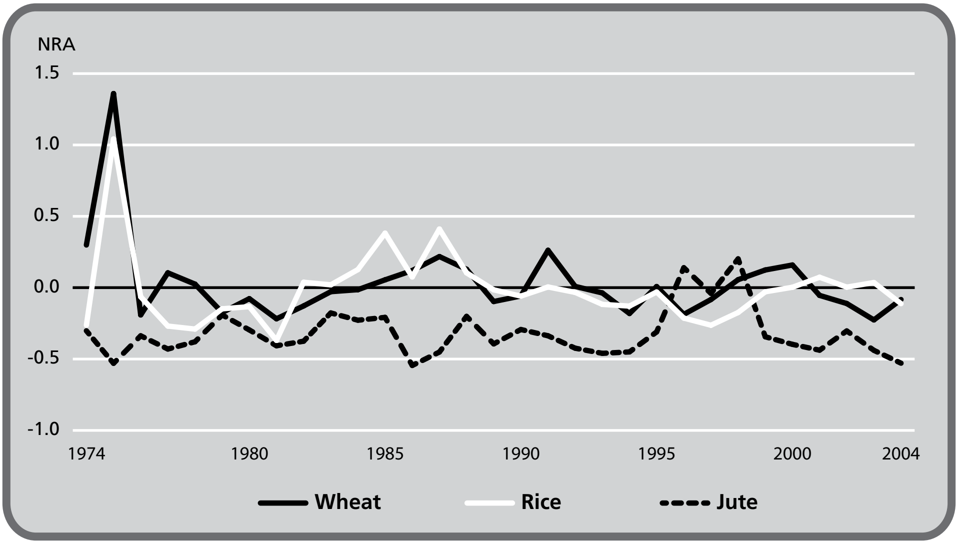
Whilst the NRA gives a partial picture of the relative support provided to the sector, other indicators presented by Rashid (2009a) give an indication as to how the support/taxation was provided as elaborated in the succeeding sections.

While imports of the key food staple, rice, are relatively unrestricted, there is a significant degree of tariff escalation which is reflected in the tariff profile. This is also reflected in the first PRSP which noted that the country promoted a "realistic tariff rationalization programme to substantially benefit the domestic industry relying on imported intermediate goods". Indeed, tariff escalation is an industrial policy objective and remains pronounced. The World Bank (2004) have highlighted a consistent policy of increasing protection to the processing margins of import competing industries selling into the domestic market by pushing up tariffs protecting their outputs, while reducing tariffs on intermediate inputs.

This mixed pattern reflects a combination of policy decisions influenced both by domestic pressure groups, particularly where an agricultural product is used as an input

[4] See Section 5 for more recent developments in the price of Jute

FIGURE 1:
Nominal rate of assistance for selected commodities



Source: Authors using data from Ahmed et al (2007)

to a higher level process, and by structural adjustment programmes, with the World Bank, Asian Development Bank and USAID in particular, exerting a major influence on the formulation and implementation of agricultural policy by tying programme loans and import credits to the policy reform agenda (Ahmed *et al.* 2007, p.25).

However, the conflicting pressures have resulted in a policy set whereby the export and import policies of the Ministry of Commerce (MOC) are weighted in favour of certain exportables, whilst there is hardly any consistency between these policies and the National Agricultural Policy (NAP) of the Ministry of Agriculture (Khan 2009). For example, the Export Policy (2009-2012) gives support to the agriculture export sector, but the NAP makes only casual reference to these agricultural sub-sectors.

According to Alam (2010), a prime rationale of the PRSP is to facilitate the intensification and acceleration of the export promotion activities and to play a strong role in the accomplishment of the government's stated poverty reduction objectives, "Keeping in mind the objectives stipulated in the PRSP, the government has taken initiatives to diversify and liberate the export sector from limited goods dependency and to ensure a supply of goods at competitive prices in the world market by putting more importance on the facilitation and simplification of import-export procedures, expansion of the use of modern technology in businesses, market expansion, capacity building activities such as productivity increase, production of quality goods, reduction of business expenses, and compliance-related issues including the overall development of the governance situation".

Further, Alam notes that in the current Export Policy (2009-2012), promotion of exportable commodities produced, particularly by women, is given priority, "Availability of raw materials to be used for exporting goods, increase of productivity and diversification of products, enhancement of efficiency and dynamism through the use of e-commerce and e-governance, establishing backward and forward linkages with suitable infrastructure and development of trained human resources in the export sector have been given emphasis in the export policy. In the policy, agro-products and agro processing commodities are one of a set of eight products that have been identified as thrust sectors in exports".

The Import Policy Order (2009-2012) is broadly supportive, highlighting the "need to provide facility for the import of technology for widespread expansion of modern technology, provide facility for easy import for the export support industries for the purpose of placing export industries on a sound basis and with this end in view, to coordinate the import policy of the country with the industrial policy, export policy and other development programmes, to make easier the availability of industrial raw materials for increasing competition and efficiency by gradual removal of restrictions on import of finished goods". However, the import policy pays little attention to import competing crops and to the types of trade policy that might be available to manage food imports.

To summarize the above discussions, the trade policy regime in Bangladesh is therefore of a more liberal than it was previously, but is still relatively interventionist when it comes to agriculture. Indeed, and as noted by Talukder (2010 p.23), "open trade policy does not imply a passive role for government in food grain sectors".

While it is problematic to determine the impact of further reductions in tariff levels on food security and poverty indicators, and while such reductions need to be assessed on a case by case basis (see for example Thomas and Morrison (2006) and Morrison and Sarris (2007)), a more transparent and predictable use of trade policy is likely to be beneficial, particularly where private sector support to the development of marketing channels and associated infrastructure is required.

Recent events have, however, highlighted the propensity for government involvement in food staples trade, with the imposition of various restrictions on exports. In Bangladesh, a six month ban on non aromatic rice exports was implemented in May 2008. This was extended to all rice in November 2008 and renewed in May 2009, although relaxed to allow the export of 10 000 tonnes of aromatic rice in September 2009 (World Bank 2009). The events associated with the food price crisis have therefore refocused attention on the ability of the country to source from global markets when food staple production is insufficient.

A key question that the discussion above raises is whether the significant emphasis on export promotion and export led growth is appropriate, or by contrast, whether the "residual" policies on importables are sufficient to ensure that key poverty reduction and food security objectives are achieved, particularly given the increased concerns about the reliability of global markets.

In the following subsections, this question is considered by taking three "cases"[5] for further examination: (i) trade policy in relation to self sufficiency in grains; (ii) trade policy on rice given the role of India and other exporters, and (iii) the use of policy in the promotion of shrimp and fresh vegetable exports.

3. Self sufficiency in grains

The World Bank has noted that for over 30 years, a central objective of the government was self sufficiency in food grains (Ahmed 2007). As Deb *et al.* (2009) state, "from 1993, self reliance was more formally adopted as a strategy, essentially on the back of imports of cheaper rice from India following the partial liberalization of their trade policy with respect to the export of rice". This has generally worked well, with the private sector importing sufficient rice in a timely manner when the need arose (Dorosh 2001) given that Bangladesh normally produces enough rice to feed its population of 150 million, but often requires imports to cope with natural calamities such as droughts and floods.

However, the strategy was tested in 2007/08 when a number of major grain exporters imposed export restrictions that made sourcing of staples from global markets problematic. While importing from international markets during this period was very difficult, it is important to recognize that the potentially negative impacts were ameliorated by an all time high harvest in Bangladesh. The fear that global markets may not always be reliable as a source of food when needed was reflected in the new Government's election pledge of achieving self sufficiency in food grains by 2012 (Deb *et al.* 2009).

In following up on this pledge, the government slashed fertilizer prices in January 2009 and reduced the price of diesel to farmers through cash subsidies. In June 2009, the finance minister argued that to attain self sufficiency by 2012, an expansion in irrigation would be required. In April 2010, the Prime Minister promoted the increase in subsidies to farmers to achieve "food autarky" with a

[5] It should be recognized that the cases, particularly those where import trade policy is discussed, are restricted to crop enterprises. The discussion is therefore partial to the extent that it does not include analyses or views on input trade policy for livestock (vaccines, feeds) or fisheries (for example, brood stock) enterprises. The conclusions with respect to crop enterprises are not necessarily generalisable to these other sectors.

potential increase in such outlays from Taka 3 000 crore to Taka 5 000 crore (Daily Star, various articles).

A key question addressed in this section is what self sufficiency in grains means for Bangladesh, whether it is an appropriate policy stance, and the trade policy instruments that might be used for this.

As a backdrop to the discussion, it is important to note that, as Ahmed *et al.* (2007, fn 21 p.25) note, "various studies of comparative advantage in Bangladeshi agriculture demonstrate that the attainment of self sufficiency in rice production is not only an important socio-political objective but an eminently sensible one from a strictly economic point of view". Thus implying that a strategy of ensuring self sufficiency may not be as contentious as in other products and countries.

As the staple food for Bangladesh, rice production is the most important economic activity in rural Bangladesh. Rice is grown in all the three growing seasons and covers about 77 percent of the total cropped area of around 13.9 million hectares. At present, rice alone constitutes about 92 percent of the total food grains produced annually in the country (FAO 2010). Indeed, Bangladesh is the world's fourth largest producer of rice. Production has increased significantly from about 6 million tonnes in 1971/72 to 13.6 million tonnes in 1981/82, further doubling to 29.8 million tonnes in 2007/08. Some 80 percent of the increase was from the irrigated Boro crop.

Staples food grain consumption is primarily of rice with less consumption of wheat, a staple that is only produced in relatively small amounts in Bangladesh. Wheat is not a close substitute for rice in domestic consumption, therefore the effect of wheat imports (mainly food aid) on rice prices is small, although in the absence of wheat imports, rice prices would have been somewhat higher (Ahmed *et al.* 2007).

Although domestic production of food grains has increased significantly over the past four decades, imports have always constituted a significant proportion of total availability of food grains in the country. Even allowing for 1998/99, where a devastating flood in the latter part of 1998 severely depressed domestic production, imports constituted around 10 percent of total availability for most of the years under review (Table 2). It is also important to note that while public imports represented an important component of total imports during 1990s, private imports increasingly dominated total imports during the recent decade, although it is noteworthy that government commercial imports have recently increased. (Talukder 2010)

A key component of the reforms facilitating trade post1993 were the clear signals that the government gave to the private sector traders, removing tariffs and surcharges and instructing customs to speed clearance following shortfalls

TABLE 2:
Share of imports in the total availability of food grains (in 000 tonnes)

Year	Public import			Private import	Total import	Import as % of total availability
	Aid	*Commercial*	*Total*			
1991-92	1 414	150	1 564	-	1 564	8.36
1992-93	736	93	829	355	1 184	6.31
1993-94	654	-	654	312	966	5.14
1994-95	935	620	1 555	1 013	2 568	13.82
1995-96	743	841	1 584	850	2 434	12.56
1996-97	618	112	730	237	967	5.02
1997-98	549	249	798	1 149	1 947	9.38
1998-99	1 235	777	2 012	3 200	5 212	21.42
1999-'00	870	-	870	1 234	2 104	8.56
2000-01	492	-	492	1 063	1 555	6.02
2001-02	511	-	511	1 289	1 800	7.2
2002-03	254	-	254	2 966	3 220	11.72
2003-04	289	29	318	2 480	2 798	10.24
2004-05	290	101	391	2 980	3 371	12.5
2005-06	194	103	297	2 264	2 561	9.5
2006-07	87	121	208	2 209	2 417	8.7
2007-08	258	296	554	2 916	3 470	11.5

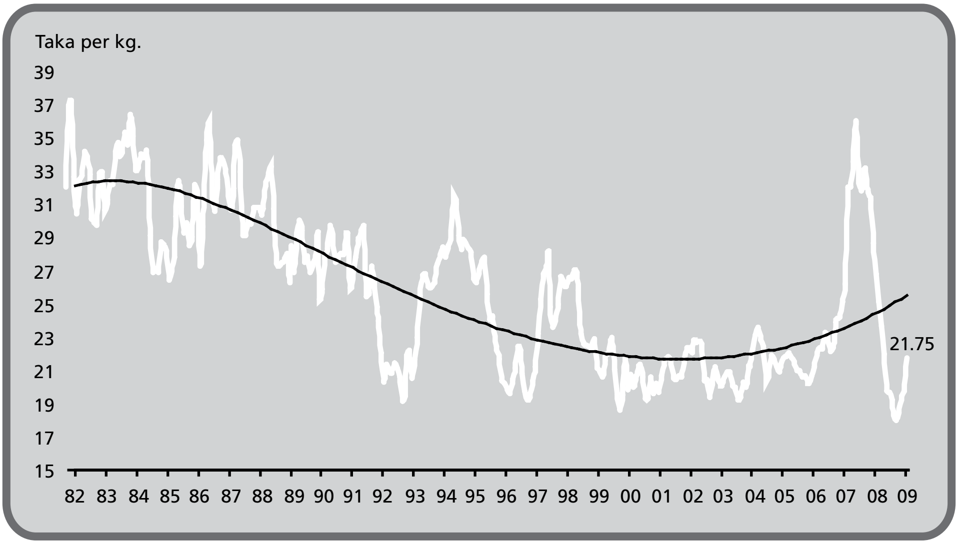
Source: FPMU: Database on Food Situation, MoFDM, Dhaka

TABLE 3:
Real food grain prices in Bangladesh, 1981-2008

Year	Nominal price of grains (Tk./ tonne)		Non-food CPI (1985/86 = 100)	Real price of grains (Tk./kg)	
	Rice	*Wheat*		*Rice*	*Wheat*
1980/81 - 1984/85	6 352	4 006	76.6	8.2	5.2
1985/86 - 1989/90	9 076	5 692	123.3	7.5	4.7
1990/91 - 1994/95	6 574	7 034	186.4	5.6	3.8
1995/96 - 1999/2000	11 864	8 760	215.3	5.5	4.1
2000/01 - 2002/03	12 250	8 742.3	246.7	5	3.5
2006/2007	23 000	27 500	310	7.4	8.8
2007/2008	24 000	19 000	328	7.3	5.7
2008/2009	22 100	18 110	-	-	-

Source: Talukder (2010) citing Chowdhury (2009)

FIGURE 2:
Real national wholesale price of rice since December 1982



Source: Department of Agriculture Marketing, Bangladesh
Note: Prices are defated by the general CPI (as of October 2009) which is obtained from BBS; Price as of 31 December 2009

Although on balance positive, there are associated risks, noted by Dorosh (2001). Given that rice is such an important component of rural activity, dynamic growth in productivity also needs to be assured domestically.

By encouraging this trade, Bangladesh has no doubt augmented domestic supply and, with the notable exception of the high food price months during 2007-2009, this has stabilized prices (Table 3). Indeed, even during those months, prices did not increase to the extent seen on global markets (see Figure 2).

Rice imports, although averaging only 3 percent of net availability during 1980-2004 contrast to wheat, where imports accounted for about two thirds, play a critical role in food security and rice price formation.

Since the early 1990s, there have been significant changes in the determinants of rice trade as it affects Bangladesh. Dorosh notes that the coincidence of major changes in Indian macroeconomic policy, namely a gradual liberalization of trade and a depreciation of the rupee, which combined to increase returns from rice exports, and the 1994 liberalization of trade in Bangladesh[6] that permitted private

[6] Prior to 1992/93 all rice imports were by the public sector.

sector imports, dramatically changed the import source of rice from Thailand to India. By 1996/97, India accounted for 92 percent of Bangladeshi rice imports. Demonstrating the importance of the switch, Dorosh estimates that if India had not been a source during the shortfall year of 1998/99, rice from Thailand would have resulted in an import parity price 21 percent higher, causing a decrease in demand of about 5 percent, and approximately 500 000 tonnes less rice being imported.

Interestingly, wheat imports fell by 2.9 percent per annum between 1973 and 2004, reflecting production increases from 0.259 million tonnes in 1972-78 to 1.47 million tonnes in 1999/2004. The ratio of imports/net availability fell from 81.7 percent in 1973/78 to 59.7 percent in 1999-2004.

The 2007-08 food price crisis caused a re-focusing on two important aspects: (i) short term availability and stock management; and (ii) longer term production potential.

3.1 Short term availability and stock management

Plans to import 300 000 tonnes of rice in the fiscal year to June 2010 through international trade to "shore up our stocks" has been interpreted as a government move to build up food reserves after failing to procure enough food locally. According to the Gurumia website[7] the country also planned to import 750 000 tonnes of wheat in the year to end June 2010 to rebuild wheat stocks. Simultaneously, in January 2010, the government extended its rice ban to curb price increases and ensure availability in the domestic market. Open market sales in the capital and surrounding areas were also used to keep prices down, however, the open tender process and associated complex procedures can slow down decisions as to when and how much to import, potentially adding to uncertainty and volatility in domestic markets.

The crisis also raised longer run concerns over the country's capacity to increase rice production due to increasing arsenic contamination and falling water table (Ahmad 2010). Citing the recent growth in Boro production, the Agriculture Minister Chowdhury argued for the need to shift to Aman production[8]. Acknowledging the risks associated with rainfed rice production, the government has provided free electricity to irrigation during drought/delayed monsoon (Ahmad 2010).

3.2 Are such strategies in line with the country's comparative advantage?

Talukder (2010), using data from Rashid (2009), argues that Bangladesh has a comparative advantage in the production of rice, particularly at import parity prices

[7] http://gurumia.com

[8] In 1971-72, Boro production was only 1.7 mt compared to Aman's 4.1 mt. By 1997-98, the two crops had similar outputs of 8.1 mt and 8 mt respectively, but by 2008/09 Boro at 18 mt had suprassed Aman at 12 mt.

(Table 4). Deb et al. (2009) also conclude that Bangladesh has a comparative advantage in rice production at import parity prices; hence it is cheaper to produce domestically than to import, but that the country is not competitive as exporter. They also suggest that as the country depends on a combination of the international market and buffer stocks for natural disaster years, it needs to take precautionary measures

In interpreting the above results, it should be noted that the government has been "hands-on" in stimulating rice productivity growth. During 1970s and 1980s there was significant support to agricultural modernization (seed, irrigation, fertilizer, R&D, extension). Equally, as Deb *et al.* (2009, p22) note, the cost of production is significantly influenced by government intervention in different "exporting" markets, which also influences the results.

Deb *et al.* illustrate the point by comparing the costs of production in India, Vietnam and Bangladesh (Table 5). They note that there are significant differences in the levels of subsidy applied to fertilizer (limited in Vietnam) and irrigation (significant in both Vietnam and India). They also suggest that it is important to monitor international prices, the policy in India and in other exporting countries as well as the production situation domestically when setting and modifying trade policy.

Examining the capacity of other exporters to serve Bangladesh's needs, they suggest that Myanmar's surplus is generally too small to meet Bangladesh's import needs; that Thailand is a dependable but expensive source[9] (reflecting the fact that policy in that country is driven largely by the interests of Thai producers) and import costs from this country are higher than the cost of domestic production in Bangladesh; and that India is of questionable reliability given that its trade is driven by the Indian consumer concerns. They also calculate that if India reduces its fertilizer subsidy, output would fall by 9 percent and there would be no exports. All of these arguments point to risks in relying too heavily on imports.

4. India and rice trade policy

The large expansion in India's rice exports was significantly linked to the Indian macro and trade policy. There are significant differences between Bangladesh and India in terms of the overall importance of rice on total food consumption, seasonal patterns of production, levels of public food stocks, and channels of public food grain distribution and trade policy. These factors have heavily influenced the evolution of external rice trade between the two countries.

[9] Thai 5 percent (f.o.b) Bangkok price remained much higher than the Kolkata price and the Dhaka LC settled price. The import parity (c.i.f) price would be still higher once adjusted for the ocean freight rate. Thus Thailand is unlikely to remain a dependable source of rice import for Bangladesh as long as rice can be imported from neighbouring and other Asian countries such as India, Pakistan, Myanmar and Vietnam (Talduker 2010)

TABLE 4:
Domestic resource cost (DRC) for rice

Year	DRC ratios			
	Fine rice		Coarse rice	
	Import parity	Export parity	Import parity	Export parity
2005	0.570	0.857	0.681	0.798
2006	0.621	0.900	0.738	0.868
2007	0.612	0.882	0.680	0.783
2008	0.279	0.284	0.482	0.529
2009	0.561	0.800	0.433	0.477

Source: Talukder (2010) with data from Rashid (2009)
Note: A DRC ratio of less than unity indicates a comparative advantage

TABLE 5:
Cost of production of paddy in India, Vietnam and Bangladesh: 2007/08

	Mekong Delta, Vietnam	Punjab, India	Andhara Pradesh, India	West Bengal, India	Aman HYV, Bangladesh	Boro HYV, Bangladesh
Seed	26.69	16.02	22.49	17.85	17.21	18.14
Fertilizer	205.24	62.63	61.00	42.98	66.67	114.15
Manure	Nil	3.29	14.04	9.85	5.45	14.46
Pesticides	56.50	34.75	30.03	4.59	5.85	11.88
Irrigation	34.88	94.48	25.79	38.17	2.80	149.76
Machine rental	36.65	115.81	58.30	26.11	60.44	59.15
Animal labour	Nil	1.70	24.46	64.95	9.46	5.37
Human labour	288.66	128.87	242.94	253.76	235.50	278.80
Total cost	648.62	457.54	479.04	458.25	356.28	651.71
Yield (t/ha)	5.79	6.48	5.24	3.60	3.66	5.34
Unit cost (USD/tonne)	112.02	70.66	91.49	127.26	97.34	122.04
Price (ÙSD/tonne)	145.79	160.60	160.80	167.50	207.96	182.74

Source: Deb *et al* (2009)

Dorosh (2001) cautions that if, for example, Bangladesh's currency appreciates, it could become a consistent cultural goods could result in a slowing of agricultural and rural economic growth in Bangladesh.

Shortly after the publication of Dorosh's paper, another significant decision by India affected the rice trade. From 2000, India promoted exports to solve a significant stock build up. This included subsidizing exports by providing grain from government stocks to exporters at below cost. Bangladesh prices were approximately equal to full cost (including tax) import parity price of Below-Poverty-Line (BPL) rice from India so small amounts were imported.

When the sales price of Indian Above-Poverty-Line (APL) rice was lowered in July 2001, Bangladesh increased its import tariffs and taxes from 5 percent to 37.5 percent, raising the BPL import parity 33 percent above domestic levels and cutting off the incentives for private trade. Although the Table 6 only provides data to 2003, it illustrates the reduction in protection rates from the early 1990s to 2001, when they were increased in response to Indian subsidized exports.

As the BPL import parity (including tax) determines the Bangladesh domestic price, import tariffs raised domestic prices relative to the import parity price (without tax) of subsidized Indian BPL by about 10 percent. Ahmed *et al.* (2007) note that the close relationship between the Bangladesh import price and the Indian APL (subsidized PDS) reflects informal trade as PDS rice is not in fact exported.

Similarly, following an Indian ban on cereal exports to Bangladesh, exports continued through Nepal with 150 000 to 200 000 million tonnes of exports from Nepal to Bangladesh, reportedly originating in India.

5. Export promotion

While trade policy with respect to importable food staples is characterized by interventions, which have been formulated primarily on the basis of food security concerns, and, as a result, these policy interventions have thus been variable in terms of the levels of protection and support provided, the policy with respect to agricultural exportables has been more consistent.

According to Ahmed *et al.* (2007), there was a significant bias against agricultural exports over the period of their study (1970s to mid 2000s), with NRAs maintained at a level of approximately negative 30 percent (Figure 3).[10] However, the apparent anti-export bias reflected in Ahmed *et al.* is potentially misleading because "exportables" are listed as including only jute and tea[11]. The weighted average for exportables in the graph below reflects the fact that raw jute as an exportable has been implicitly taxed (through various export restrictions as discussed in section 2) to allow the

[10] However, while true for the period to the mid-2000s, a surge in jute prices (international and domestic) in 2009 and 2010 resulted in significant profit margins, an associated supply response and the reopening of public sector jute mills previously closed on loss making grounds (Mandal 2010, pers comm.). This example illustrates the difficulties in interpreting historic data in the contemporary policy making environment.

[11] Similarly, wheat, rice and sugar are taken as the importables and potatoes as a non tradable in Ahmed *et al.*

TABLE 6:
Customs and supplementary duties on rice

Year	Customs duty	Supplementary duty	VAT	AIT	LF	DSC	Tax incidence
1991	30	0	0	2.5	2.5		35
1992	60	0	15	2.5	2.5		89
1993	7.5	0	0	2.5	2.5		12.5
1994	7.5	0	0	2.5	2.5		12.5
1995	0	0	0	2.5	0		2.5
1996	0	0	0	2.5	0		2.5
1998	0	0	0	3	2.5		2.5
1999	5	0	0	0	0		5
2000	5	0	0	0	0		5
2001	25	0	0	3	2.5	2.5	33
2002	22.5	0	0	3	0	3.5	29
2003	0	0	0	3	0	4	7

Source: from Ahmed (2007, Appendix Table A7, pages 57-67). Figures for 1997 were not included in the source data.

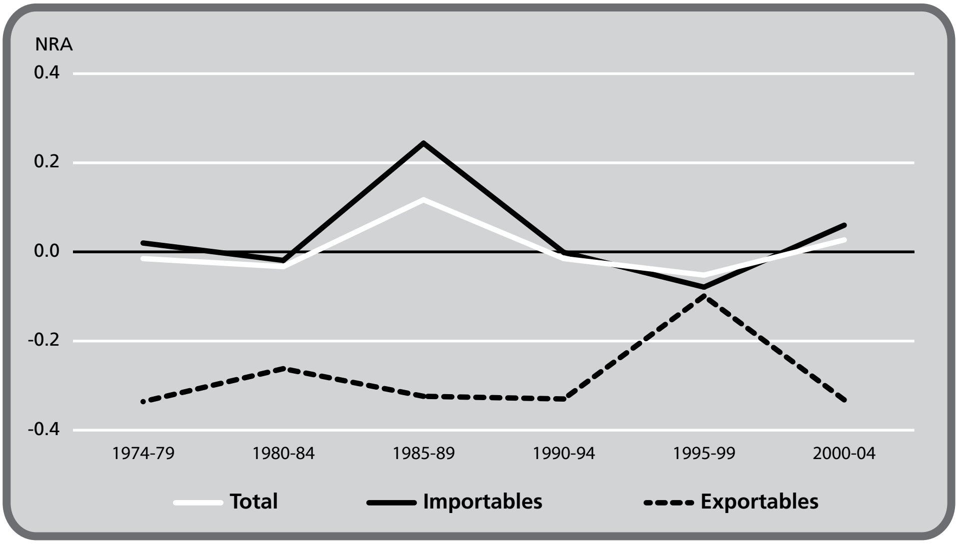
development of local processing industries in jute based goods. However, this should not be taken as reflective of policy with respect to other exportables. Whilst jute (as the primary agricultural export in the 1970s) has been negatively affected, it is certainly not the case that agricultural exports *per se* have been taxed in recent years.

Indeed, a key component of the export policy for the past decade has been the use of cash incentives for the promotion of the export of certain agricultural products, primarily to generate foreign exchange, but also to support producers of these commodities.

The cash incentive scheme was initially introduced to assist the export of locally produced jute products and other local textiles. Since then it has been progressively increased in scope (both in terms of the overall outlays on cash incentives and the number of products, which has increased to 14), with frozen shrimps and other fish, fruits and vegetables and processed agro-products included in the programme since 2002-03, potatoes added in 2004 and hatching eggs and day old chicks in 2005. The cash incentives are provided to internal and international handling, transport and freight charges which are allowed under Article 9.4 of the WTO Agreement on Agriculture.

The cash incentive is provided on the net FOB value, calculated using a fixed administered price set by the Bangladesh Bank. The cash incentive varies across products and across time in the range of 10 to 30 percent. Although the total expenditure on the cash incentive scheme has not increased significantly over time (falling from USD 132 million in 2002/03 to USD 89 million in 2005/06 before

FIGURE 3:
Aggregate NRA – importables vs exportables



Source: Based on the database in Ahmed *et al.* (2007)

climbing to USD 185 million in 2007/08), there has been a significant change in the balance away from support to local textiles and towards frozen shrimps and other fish, where the outlay on cash incentivesincreased from USD 8.64 million in 2002/03 to USD 52.60 million in 2007/08, and that for fruits and vegetables increased from USD 0.13 million to USD 9.42 million over the same period (Deb and Bairagi 2009).

Further protecting and supporting the development of these export sectors has been the use of high tariffs on frozen shrimp and fish and on jute, despite the fact that they are major exports. Tariffs are also very high on some import substitution crops, for example vegetables, fruits, nuts and spices and on import substituting food processing industries. Indeed, as Khan (2010) notes, "the Export Policy 2009-2012 also prohibits the export of raw shrimp", and that "agro-food processing including frozen food is declared as a highest priority sector".

The approach to trade policy towards exportables therefore reflects the perceived importance of the processing and trading sectors and makes use of a combination of export promotion and tariff escalation.

The selected support to different sub-sectors appears to have contributed to a significant change in the export pattern. The World Bank study (Ahmed *et al.* 2007, p.4) notes that while the agricultural share in total exports has fallen from

37 percent in the 1970s to 7 percent in 2004/05 (due to increased exports of Ready Made Garments), the recent growth in shrimp exports, which now has a 65 percent share of agricultural exports, and vegetables with a 6 percent share, has been driven to a large extent by the cash incentives and by subsidized freight charges.

Deb and Bairagi (2009) argue that there is a significant positive relationship between the cash incentives and production, but that the relationship is especially visible in terms of the effect on export quantities and volumes and on certain incomes and factors of production along the value chain. They compare growth in the pre-cash incentive era (1985/86 – 2001/02) with growth in the cash incentive era (2002/03 – 2007/08). In terms of production growth rates, the picture tends to be mixed. For example, the rate of growth in annual shrimp harvest by capture increased significantly, but for shrimp production by culture it fell. Similarly, with vegetables, the annual growth rate in production was slower overall in the cash incentive period, but there was growth in the majority of individual vegetable products.

In terms of export performance, there was a very high increase in the export of shrimp. For example, frozen shrimp exports increased from 9.86 thousand tonnes in 2001/02 to 23.52 thousand tonnes in 2007/08, while the value of these exports increased from USD 252 million to USD 417 million. The percentage increase in the export of other frozen fish was even higher, albeit from a lower base.

Both the volume and value of vegetable exports also increased significantly, with volumes increasing from 3.75 thousand tonnes in 1990/91 to 30.93 thousand tonnes in 2007/08. In value terms this represented an increase from USD 4.37 million to USD 60.47 million. During the cash incentive period alone, the quantity of exports increased 2.4 times and the value by 4 times.

It should be noted that despite the significant increases, the volume of exports of both vegetables and shrimps depends not only on the cash incentive but on the ability of the sectors to comply with HAACP, SPS, pesticide residue etc. Further advances in this area could provide a significant additional boost (see the subsequent chapter on trade support measures).

By disaggregating the value chain and looking at changes in margins, Deb and Bairagi demonstrate that the net income of fish farmers was 52 percent higher in cash incentive period, while that of vegetable farmers increased by 79 percent. Similarly, the amount of labour engaged in the production and processing of exported shrimp increased by 85 percent, although the increase for the production of vegetables was only 7.5 percent.

The "success" of the cash incentive programme in promoting exports has also resulted in pressure for their use in other sub-sectors which may not be considered to require this type of instrument for subsector development.

For example, in April 2010, the cash incentive to potato exporters was increased from 10 percent to 20 percent until 30 July 2010 as a result of domestic market price depression (prices fell to Taka 6-7/kg against production costs of Taka 10/kg) as a result of a bumper local harvest which exceeded domestic consumption requirements by 2 million tonnes, while insufficient cold storage was available to cope with the surplus (The Financial Express-bd.com, Daily Star, 2010). However, this was a short term solution while expanded cold storage facilities are the longer term solution.

There are also concerns about the abuse of the cash incentive programme, both in terms of corruption in obtaining the payments, and the fact that it is seen as being a policy instrument that can easily be used selectively to support particular target/lobby groups. For this reason, continued analyses and debates on this programme remain a priority.

6. Conclusions

The picture often painted of Bangladesh's agricultural trade policy is one of increasing openness to imports on the one hand, but with significant anti-export bias on the other. Associated advice to policy makers tends to be consistent in arguing for further significant reductions in the use of tariffs and associated supplementary duties on imports and a reduction in the implicit taxation of exportables (for which jute has often been used as an example).

In reality however, trade policy has been actively used both in the promotion of the exports of locally produced value added products, and in the management of the staple grains. In terms of exportables, the policy has been relatively consistent, although possibly susceptible to lobby pressures. On the import side, in light of the use of trade policy to alleviate potentially negative impacts on the food security situation, interventions have been more ad hoc in nature.

In practice, both exportables and importables have therefore been subject to the use of instruments associated with trade promotion and trade restriction.

In seeking to explain this pattern of use and to determine its appropriateness, it is necessary to consider the impact of trade policy along the value chain, rather than to focus just on the raw commodity (as tends to be the case when constructing indicators of protection and support). For example, the jute value chain is characterized by significant tariffs on jute and jute products, export restrictions on raw jute and cash incentives to the export of jute products. Similar strategies are used with respect to shrimp and vegetable trade (see for example Deb and Bairagi, 2009).

Cereal trade faces relatively low tariffs in general, but significant use of supplementary duties when grains from key exporters become too competitive at the import parity price (for example following the subsidization of exports by India).

Cereal trade also faces export restrictions, for example with wheat where export bans are relatively longstanding, and rice where they have been temporarily used since 2007 to manage domestic prices in conjunction with the management of food reserves.

The management of staple grains trade has increased significantly following the food price crisis, reflecting a change from the strategy of self reliance that has been in place since the early 1990s to one of self sufficiency. A combination of managed trade and a bumper harvest has sufficed to prevent significantly negative effects from the transmission of high world market prices as well as difficulty in securing imports of rice.

Similarly, selective support to certain exportables also appears to have had positive effects in terms of improving producer incomes, in addition to their contribution to foreign exchange earnings.

It might be argued that the trade policy, although far from liberal, has been used appropriately in minimising the potentially negative effects of "competitive" imports undermining local agricultural production and related industry, while ensuring that staples availability has not been negatively affected. However, there is still concern that an over-emphasis on, and targeting of, some sectors has been to the detriment of other sectors. For example, Hossain and Saha (2010) argue that weaknesses in policy formulation includes an over emphasis on cereal food production which has negatively affected enterprises in the vegetable subsector. This could be particularly pertinent if the argument that factor-neutral technical change could run up against problems of domestic market absorption hold true. This could result in exports needing to be further developed to compensate for the possible slowing of domestic demand (Mandal 2010, pers. Comm.)

In addition, the management of trade through government intervention, although not necessarily negative in aggregate, has in practice caused difficulties for traders. In this respect, greater communication between private traders and government, and the cooperation of the latter in the articulation and implementation of trade policy could improve the impact of trade policy interventions.

These contrasting points of view demonstrate the difficulty of using trade policy in pursuit of the objectives with regard to the agriculture sector's contribution to often multiple and conflicting objectives. However, they do not, as is often argued, necessarily support a case for a more liberal, or uniform approach to agricultural trade policy.

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6

6

Bangladesh - Mainstreaming trade policy

M. Harun-Ar Rashid and Jamie Morrison

1. Introduction

This paper, drawing on the key themes developed in the previous chapter on trade policy, and the next chapter on support measures, examines the extent to which trade policy formulation is consistent across a range of policy frameworks in Bangladesh, and in doing so, attempts to investigate how the relationship between the formulation of trade policy and broader strategies of poverty reduction can be improved.

As a case study review, it examines the trade policy positions in a series of contemporaneous historical documents developed around the time of the first PRSP preparatory process:

1. I-PRSP, PRSP and associated policy matrices (2004).
2. Import Policy Order 2003-2006.
3. Export Policy 2003 – 2006.
4. National Food Policy 2006.

The objective of the case study review is to assess the extent to which trade, and trade policy more narrowly, were considered across the different policy documents, the extent to which the process of PRSP formulation allowed mainstreaming, and whether on the basis of this experience, the PRSP has shaped more recent policy documents impinging on trade and trade policy, such as the Export Policy 2006-2009, and their use in achieving policy reduction targets.

For each of the policy documents, and to the extent that the available literature allows, the paper considers: (a) the emphasis on trade and trade policy in each of the documents, particularly in respect of the issues discussed in the previous chapter, namely (i) the move towards a more liberal trading environment, albeit still relatively highly protected in the agriculture sector; (ii) self-sufficiency in grains; (iii) the ability to respond to decisions by key grain exporters and (iv) the increased emphasis on (a) export promotion; (b) the links between that document and the other documents and (c) the process by which the document was formulated. It then considers the extent of coordination between key actors and the degree of consultation with stakeholders more broadly.

2. Trade components of policy documents

2.1 I-PRSP, PRSP and associated policy matrices[1]

Interim PRSPs (I-PRSPs) summarize the current knowledge and analysis of a country's poverty situation, describe the existing poverty reduction strategy, and lay out the mechanism for producing a fully developed PRSP through a participatory process. In doing so, they outline a country's existing poverty reduction strategy and provide a road-map for the development of a comprehensive PRSP (for example, a timeline for poverty diagnostics, recognition of policy areas that need evaluation and reform, envisaged participatory process, etc) (CPD, 2004).

Bangladesh prepared an I-PRSP document, *Bangladesh: A National Strategy for Economic Growth, Poverty Reduction and Social Development,* finalized in March 2003. The I-PRSP was formally presented to the Boards of Directors of the World Bank and the IMF on 17 June 2003. Bangladesh subsequently prepared a PRSP on the basis of the I-PRSP.

CPD (2004) states that "the I-PRSP was prepared under the constraints of limited opportunities for consultation and thematic review and as such a number of gaps were identified during post-document reviews. The major gaps which were identified and subsequently addressed in the PRSP preparation included the following:

- Environment-poverty interface.
- Strategy for water resources management.
- Quality improvement in education.
- Mainstreaming gender issues in agriculture, rural development and labour market.
- Private sector development.
- Medium term plan for trade policy reforms.
- Financial sector reforms.

[1] This sub-section draws on CPD (2004)

- Policies and institutions for rural non-farm activities, and
- Medium term framework on sectoral policy priorities".

Interestingly, the lack of attention to future trade policy was identified as one of the major gaps. In assessing how different components of trade and related policies were addressed in the full PRSP, it is useful to consider the overall thrust of the strategy set out in the document. This is summarized in Figure 1.

In the document, eight specific areas (four strategic blocks and four supporting strategies) through which the goal of accelerated poverty reduction was to be pursued are detailed:

- The first focuses on the conditions required for rapid growth (i.e. stable macroeconomic balances, improved regulatory environment, higher private investment and increased inflow of FDIs, effective trade and competition policies, and poor and gender sensitive budgetary process).

- The second indicates that targeting critical sectors will be needed to maximize pro-poor benefits from the growth process, with special emphasis on the rural, agricultural, informal and SME sectors and improved connectivity.

- The third strategic block is concerned with safety net measures to protect the poor, especially women, against anticipated and unanticipated income/ consumption shocks.

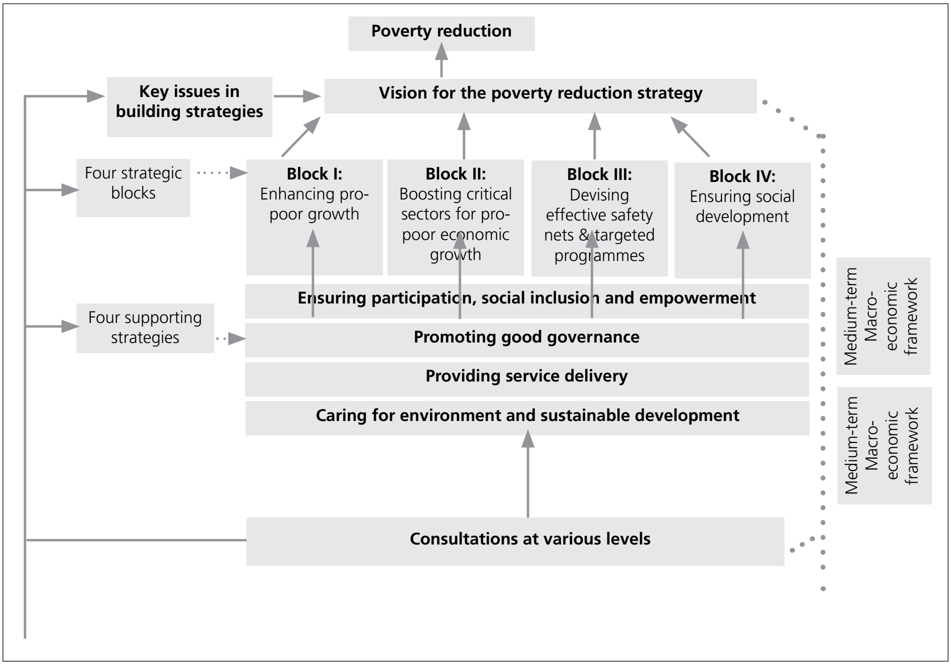
- The fourth addressed human development of the poor through raising their capability through education, health, nutrition and social interventions.

In turn, the four supporting strategies covered: (i) participation and empowerment of the poor; (ii) promoting good governance; (iii) improving service-delivery in the areas of basic needs; and (iv) environmental sustainability.

Reflected throughout the PRSP is the fact that the previous, and relatively rapid, growth pattern in Bangladesh had generated inequality and that increased employment was seen as constituting the basic route out of poverty.

In relation to the issues covered in the previous chapter, it is notable that although the executive summary concisely points out that *"Exports matter, but the importance of parallely mobilizing the potentials of a burgeoning domestic market cannot be left aside. Indeed, it is arguably in the synergies of the two foci - export and domestic markets - that the best opportunities for pro-poor growth lay",* in the PRSP document itself, trade related components are squarely on the potential for export growth to generate employment opportunities and, with the exception of some reference to trade in the policy matrix on food security (see below) there is no

FIGURE 1:
Flowchart of Poverty Reduction Strategy Framework



Source: CPD (2004)

specific mention of trade policy or support measures required for import competing food grains.

For example, the PRSP states that *"The export-led growth policy of the Government gives exports a unique position in the poverty reduction discourse. It merits a separate and somewhat broader analysis given its importance in the economy especially in promoting employment for the poor women"*.

This emphasis on the export side goes not just for export promotion measures, but for liberalization programmes, which are discussed in relation to their focus on *"simplification of import procedures, reduction of quantitative restrictions (QRs), rationalization and diminution of import tariffs, and maintaining a competitive exchange rate with export promotion the key driver".*

Further, the PRSP suggests that *"Liberalization programmes may be considered to have been successful in energizing export. In the 1990s real exports grew at an annual average rate of 12.5 percent in comparison with a 4.8 percent GDP growth rate and a growth rate of exports of 3.9 percent for the1980s. The* *trade-GDP ratio increased to 33 percent in 2000 from only 17 percent in the mid-1980s".*

However, it also notes that export growth had been dominated by the Ready-Made Garment (RMG) sector, which contributed about 75 percent of export earnings and that the protection provided by the MFA which had been phased out by the end of 2004 could have serious implications for the external sector as well as for the overall economy.

Particularly given that *"the export response for all other major commodities such as raw jute, jute goods, tea, leather and leather products, and frozen food and shrimps has been very weak, with, no major export product other than garments showing sustained dynamism over the last decade or so. Therefore, mere liberalization of the trade regime (and thus reduced anti-export bias) does not necessarily guarantee export diversification or a greater supply response"*.

In developing the trade component of the PRSP, reliance was placed on the output of 12 thematic groups (see section on preparation process below). The recommendations of the group looking at trade reforms and export response are summarized in Box 1.

The text in Box 1 again reinforces the emphasis on the export dimension of trade and trade policy. This emphasis is also reflected in the Export Policy (unsurprisingly) but also, significantly, in the Import Policy Order (see following sections).

With respect to the Export Policy 2003-2006, the PRSP states that "the trade policy will therefore seek to achieve adequate export growth with employment generation. Export success will have a direct effect on poverty alleviation if the export-oriented sector generates substantial employment opportunities". It goes on to note that the Export Policy 2003-2006 therefore aims at increasing export, creating job opportunities and alleviating poverty.

With respect to the Import Policy Order 2003-2006, it is stressed that since government revenue is heavily dependent on trade taxes, an associated problem of tariff liberalization is the loss of tariff revenue and its effect on the budget balance and that this will "require policy support to be built around the overall goal of employment generation. In particular, import policy and the tax and tariff structure need to be revised so as to remove bias against the informal sector".

The text in the main body of the PRSP is reflected in a series of 19 policy matrices annexed to the PRSP document. The most relevant of these matrices are considered below to examine how the text plays out in terms of recommended steps in relation to how trade is incorporated.

Box 1: Thematic sub-group on Trade Reforms and Export Response

The sub-thematic report outlines the importance of trade reforms and export promotion for poverty reduction and attempts to provide a review of Bangladesh's trade policy and reform measures with future directions for the post-MFA era. To fulfill this broad objective, several specific issues were discussed and analysed: (1) trade liberalization measures undertaken by Bangladesh, (2) policy-induced anti-export bias, (3) further scope of dismantling quantitative restrictions and liberalization and rationalization of the import-tariff regime, (4) export response to trade liberalization, (5) demand and supply side constraints facing the export response, (6) promotion of exports from Bangladesh by addressing various constraints facing the export sector, (7) phasing-out of the MFA quota and the consequent implications, (8) identification of challenges and policy options for the RMG industry, and (9) conceptual issues in the trade-poverty nexus with relevance to the poverty reduction strategy.

The report sketches out as many as twenty-five observations and recommendations for promoting trade. Some major imperatives mentioned are: (i) effective measures are needed for dealing with the MFA phase-out situation; (ii) readjustment of tariffs is needed so that the highest duty rate is reduced but on the whole the tariff structure remains revenue-neutral; (iii) ensuring the neutrality of supplementary duty and VAT by applying them to domestic import-substituting activities in a non-discriminatory fashion; (iv) reducing the effective protection can be beneficial to resource allocation; (v) a realistic tariff rationalization programme can substantially benefit the domestic industry relying on imported intermediate goods; (vi) a proactive and analytical policy regime in the foreign trade sector supports the growth of small and informal sector activities with significant poverty alleviation effects; (vii) mutual exchange of tariff preferences under Regional Trading Arrangements (RTAs) and Free Trade Areas (FTAs) involving Bangladesh may provide a scope for future tariff liberalization; (viii) exports from the potential industries can be expanded by removing the supply side constraints; (ix) a well-devised integrated approach at policy, institutional, and enterprise levels is to be effected to make intervention schemes or support systems comprehensive; (x) a well-devised contingency plan is needed due to the potential adverse consequences of MFA-phase out; (xi) the supply side constraints of the RMG sector such as weak infrastructure, shortage of skilled workers, the law and order situation, political unrest and invisible and high cost of doing business will have to be systematically addressed while a strong argument is made for reducing the long and extended lead-time, particularly in woven RMG; (xii) serious initiatives are needed to convince the US and EU of the importance of the RMG industry for Bangladesh's economy and how the issues of zero tariff and simplification of Rules of Origin (ROO) could prove to be crucial for the country's continued export success; and (xiii) removal of import duty by our major trading partners might greatly enhance Bangladesh's competitive position especially *vis-à-vis* those relatively advanced developing countries with a strong backward linkage industry.

Each matrix details a set of strategic goals (such as "improving international competitiveness"), key targets (for example "formulation of an export policy"), the policy agenda (i.e. changes to policies and key targets) and responsible ministries and agencies.

Interestingly, there is no mention of trade policy in Policy Matrix 1: Macroeconomic stability and pro-poor economic growth. Rather, this is subsumed into three specific components of Policy Matrix 2: Promoting Trade & Remittances, as described in Table 1.

Key points highlighted in the table are the increased role of cash incentives, and the importance of trade missions/fairs in export promotion. In terms of import liberalization, the stress is on reducing the tariffs on intermediate inputs and reducing the dependence on tax revenue from tariffs. However, it should be noted that there is no specific mention of the agriculture sector, even though this sector is a significant employer, particularly among import competing sectors.

Policy matrix 3, *Private Sector and SME Development,* recognizes the fact that trade policy reforms should be implemented at right pace and sequence to achieve the creation of an enabling policy environment, for example by providing adequate lead-time before liberalization, by ensuring that the removal of anti-export bias is accompanied by the resolution of supply-side bottlenecks etc.

Policy Matrix 4, *Agricultural Growth towards Poverty Reduction*, contains 24 strategic goals targeted at stimulating agricultural production but, with the exception of cash incentives for exports makes *not a single mention* of trade or trade policy with respect to key agricultural commodities.

To a certain extent agricultural trade policy is covered in Policy Matrix 8, *Food Security* (see table 2). However, while this matrix is far more cognizant of the role of trade and trade policy in (i) providing food at low cost and (ii) in smoothing domestic consumption, it also is devoid of any discussion or action to ensure that the role of trade and associated policies is considered in ensuring that domestic import competing sectors are protected from excessive competition during the implementation of the strategy in support of agricultural productivity increases.

However, the focus is again squarely on import liberalization/private sector investment to ease trade. There is no mention of the possible need for safeguards, restrictions to protect domestic producers against competition in the PRSP. This is somewhat surprising given the fact that these aspects are reflected in the National Food Policy 2006 (see section below).

During the preparation of this paper, the second PRSP was under formulation. Although a detailed examination of the process followed, and content of the

TABLE 1:
Key trade related goals in policy matrix 2: Promoting Trade & Remittances

Strategic goal	Actions taken/underway	PRSP policy agenda (FY05-07)	Responsibilities
3. Improve the international competitiveness of exports	• The government has formulated a three-year Export Policy (2003-2006) to make the export sector more competitive • To promote the export of small and medium sized enterprises and non-traditional items the Government, in collaboration with the banking sector, has provided various incentives including credit and cash incentives • New skill-based training for entrepreneurship development is being imparted to promote small and medium sized enterprises • As a result of trade liberalization measures, the anti-export bias in the economy is estimated to have fallen from 59% in FY 92 to 18% in FY03 • An action plan has been adopted to remove anti-export bias through institutional reforms • Floating exchange rate regime has been introduced since 31 May 2003 to promote competitiveness in the external sector • The foreign exchange market was further liberalized in December 2003 with the removal of L/C margin requirements	• More products are under scrutiny for cash incentives. These include handicrafts, agro-processing products, vegetables and vegetable-processing products, light engineering products etc • Registrar of Joint Stock Companies has been reorganized and is in the process of automation. Reorganization of work is in the process for EPB, Bangladesh Tariff Commission, CCI&E	MoC, FD, BB
4. Diversify Export	• Measures have been taken to explore markets in the East-European countries • Support to market exploring activities as suggested in the Export Policy of 2003-06 has been provided. These include providing cash incentives, creation of Business Promotion Councils for the overall development of the sector/sub-sector • Policy support has been provided to RMG sector for maintaining and increasing its current market share in the EU, the US and in Canada. Except USA, quota/duty free access has already been obtained in EU, Canada, Australia, Norway, and New Zealand • Bangladesh has already joined three regional free trade blocks namely, SAFTA, BIMSTEC and TPS-OIC.	• Measures include sending missions to Africa, South and South-East Asia • Most aspects of support to market exploring activities have addressed within the policy period (2003-06) • BGMEA has employed a lobbyist to work for it for obtaining duty free access of textile and RMG products to USA	MoC, EPB, Missions Abroad, BGMEA

TABLE 1 (cont'd):

Key trade related goals in policy matrix 2: Promoting Trade & Remittances

Strategic goal	Actions taken/underway	PRSP policy agenda (FY05-07)	Responsibilities
Import Liberalization Provide freer trade environment for more efficient domestic production	• Tariffs on intermediate inputs have been reduced • There has been significant rationalization in the structure of tariff rates with the number of tariff slabs reduced from 24 in the 1980s to 4 (0, 6, 13 and 25%) in FY05 • The trade regime has been liberalized by reducing the maximum tariff rate from 350% in FY92 to 25% in FY05 • Quantitative restrictions of all import lines at HS-8 digit level were drastically reduced from about 40% in FY91 to less than 2% by the mid-1990s • In the current IPO, the number of banned and restricted items has been brought down to 24 from 122 of the IPO of 1997-2004 • Import license fee on all imports has been withdrawn; sugar, cartoon import liberalized • A three-year Import Policy Order (2003-2006) has been formulated for ensuring greater degree of transparency and continuity of the import policy provisions	• The average protective tariff is planned to be reduced to 20% • Rationalization of quantitative restrictions will continue • Further reduction in number of items is under consideration. • Revenue mobilization efforts will be enhanced to reduce the dependence on import taxes	MoC, FD, NBR, Chambers

Source: GoB (2005). Annex 4

TABLE 2:
Extracts from Policy Matrix 8: Food Security

Strategic goal	Key targets	Actions taken/ underway	PRSP policy agenda (FY05-FY07)	Future priorities	Responsibilities
(1)	(2)	(3)	(4)	(5)	(6)
2. Assuring low-cost food supply	• Increase farm productivity • Assure input availability • Introduce new agricultural technology • *Continue agricultural trade liberalization* • Develop infrastructure	• Various agricultural policies and programmes in place • Subsidies in input supply put in place • Livestock and fisheries sector reviews completed • A policy review initiated; • *Private sector food trade allowed* • Infrastructure development given priority • Food distribution undertaken by Ministry of Food and Disaster-management (MFDM) in times of emergency undertaken	• Initiate major sector review of agriculture including marketing and extension • Implement new agricultural extension policy • *Encourage private sector trade (both domestic and international)* • *Judicious tariff and avoidance of market restrictions* • Government domestic purchases to avoid price risk of the product •	• Crop and food diversification to be pursued more effectively • Appropriate R&D in agriculture • Technology to be developed for minimising post harvest loss in food crops • Comprehensive disaster risk management. • Crop insurance •	MoA, MoFL, MoF, MoFDM, LG D, MoC
3. Smoothing fluctuations in food consumption	• Ensure national and local level stocks of critical food items at public and private levels • Undertake targeted food operations, price stabilization; farm price support; open market sales and other food distribution mechanisms	• Public food grain stock maintained at various places • Earlier small programmes on food grain stock by private households • Various targeted programmes for food distribution and safety nets • Import liberalization and private imports, open market sales	• Modernize food stock management for speedy distribution/release in times of need • Encourage private households stocks through Programmes of storage of crops at local levels • Underutilized public storage facility be leased or rented out to private sector users	• Modernization of food management to continue • Programmes for private stocks of various kinds of food to continue	MoFDM, MoSW, MoA, MoC, CBOs

Source: GoB (2005). Annex 4. Trade-related text shown in italics second PRSP is not undertaken in this paper, the purpose of which is to give an historical perspective on the process of mainstreaming trade and related policy in Bangladesh, the following is a summary of trade related policies contained in the second PRSP

The major thrust of the external sector policy concentrates on sustenance of export growth, enhancement of remittance flow and ensuring increasing flow of imports to meet consumer demand. The government's efforts will focus on the reduction of trade transaction costs and delivery time through trade facilitation measures, one-stop export facilities, graduation to higher valued quality products, and recognition from international accreditation bodies. There will be renewed focus on matters related to the narrow supply base and its poor response to changing international demand, inadequate investment funds, lack of connectivity with neighbouring countries due to weak physical infrastructure, and a gearing up of research and development to upscale technological base to increase international competitiveness. The demand side issues will be addresses through attention to pertinent issues such as increased preferential market access, complex rules of origin, restrictive trade policies and non-tariff barriers, and lack of adequate market information. The government is committed to reducing the anti-export bias through rationalization of tariffs and removal of non-tariff barriers to trade, avoidance of negative effective protection to industries and ensuring a stable duty structure. Bangladesh as a member of the WTO and regional trading arrangements such SAFTA and BIMSTEC, will continue to seek duty free access for its products. The country recognizes the need for improved capacity for trade negotiation as a critical aspect of trading agreements (pages 19-20, 2nd PRSP, GoB (2009)).

2.2 Import policy order 2003-2006

The gist of, and rationale for, import liberalization stated in the PRSPs is broadly consistent with the Import Policy Order (IPO) 2003-2006, the objectives of which focus on further liberalization and easing of imports.

In the PRSP, it is stated that "the liberalization process has achieved considerable success though progress has been uneven at times. In the latest IPO the number of items appearing on the control list have been brought down to 63 (from 122 in the previous IPO), of which only 22 are due to trade reasons. Items in the control list have been brought down to 24 recently. The highest tariff rate has been brought down from 350 percent in 1992 to 25 percent in FY05. The number of tariff slabs (including zero) has come down from 24 in the 1980s to 4 (0 percent, 6 percent, 13 percent, and 25 percent) causing the un-weighted customs duty rate to fall from 57.2 percent in 1991-92 to only 16.4 percent in 2005-06".

Similarly, that "an important element of trade policy has been the introduction of generous promotional measures for exports which include duty free import of machinery and intermediate inputs, cash incentives, duty drawbacks, and exemption from value-added and other taxes". It has been estimated that when un-weighted protection of import duties is considered, the anti-export bias in Bangladesh's economy appears to have fallen from as high as 59 percent in 1991-2 to 18 percent in 2002-03.

The stated objectives of the IPO are:

- To make the IPO further liberalized to keep pace with the gradual development of globalization and free market economy under the WTO.
- To provide facility for import of technology for widespread expansion of modern technology.
- To provide facility for easy import for the export support industries for the purpose of placing export industries on a sound base and with this end in view, co-ordinate the import policy of the country with the industrial policy, export policy and other development programmes, and
- to make easier the availability of industrial raw materials for increasing competition and efficiency by gradual removal of restrictions on import of finished goods.

Although some agricultural import competing sectors are heavily protected or regulated (for example the ban on wheat imports) there are remarkably few additional measures listed in the IPO.

For example, in relation to SPS requirements on food imports, clause 16.1 states that "in the case of import of milk, milk food, milk products, edible oil and other food items produced in any country, test of radioactivity levels present in those items is mandatory. It is to be noted that test of radioactivity levels of vegetables and seeds, which may be used as food directly is also mandatory". However, even this is relaxed in the case of import of rice, wheat, other cereals, and food-stuff from SAARC and South-East Asian Countries, where "the provision of the above mentioned radioactivity-test shall be relaxable on fulfilment of certain conditions such as ..... submission of a certificate of origin, issued by the related Government/ approved Agency of the exporting country, a certificate, issued by the Government/ Approved Agency of the exporting country, declaring that the standard and quality of the imported rice, wheat, other cereals and food-stuff are fit for human consumption and free from all harmful germs, shall be submitted to the Customs Authority".

Indeed of most relevance to agriculture are the exemptions to restrictions on imports facing other sectors. For example, "all types of carton <u>except</u> laminated inner carton used for export of all frozen foods including shrimps are banned".

2.3 Export policy 2003-2006

The objectives of the EPO are again consistent with the broad programme of rapid export expansion as a generator or employment opportunities. They include:

- Capacity building of export related institutions like EPB (through its reorganization to enhance institutional efficiency), customs department, land and sea ports, fisheries department, BSTI, Tea Board and trade bodies.
- Product diversification.
- Develop product quality and design and production of high value products.
- Adopt new strategies for expanding export products, ensure good use of IT or computer technology, E-commerce and other technologies.
- Develop necessary infrastructures and in required cases backward and forward linkage industries to ensure production of maximum volume of exportable items.
- Create new exporters and provide all assistance to existing exporters and develop a business friendly attitude.
- Develop expert manpower on trade; and
- Equip trade bodies, businessmen and concerned people with necessary knowledge on systems of world trading.

However, a strong emphasis of the strategy is on the identification and specific support to selected sectors which receive a range of additional support and exemptions (over and above any already granted to those in EPZs which are covered by a specific policy). Of the five identified sectors, agro-products and agro-processing products, and leather products are both included.

The types of special measures included are again broadly consistent with the thrust of the PRSP. For example, funds for export will be facilitated through interest free loans under duty-draw-back credit schemes for 180 days and 100 percent of the loan amount will be provided in advance; the import process of raw materials and related products will be made easier under the export promotion fund (EPF); importing capital machineries with soft term loan with lesser interest rate can be considered for export promotion.

Under the export loans, the exporters can get 90 percent of the amount from commercial banks under irrevocable letters of credit. Similarly, export-oriented industries are able to import 10 percent spare parts of their capital machineries without duty in every two years. And consistent with the IPO, they "will be allowed to import raw materials, packaging goods and machinery that are banned or importable under certain conditions to perform specific export orders". In addition, income tax exemptions are provided for export earnings, with exporters receiving 50 percent exemptions on their income taxes.

Although prepared after the PRSP process, the more recent Export Policy 2006–2009, reinforces such measures and explicitly references the PRSP. It is split into sections on the regulations and on the strategy/support components. The strategy component makes specific reference to the PRSP: "Keeping in mind the objectives stipulated in the PRSP, the government has taken initiatives to diversify and liberate the export sector from limited goods dependency and ensure the supply of goods in competitive prices in the world market by means of putting more importance on the implementation and observation of issues such as the facilitation and simplification of import-export procedures, expansion of the use of modern technology in businesses, market expansion, capacity building activities such as productivity increase, quality goods production, reduction of business expenses, and compliance-related issues including the overall development of the governance situation. At the same time the government has taken the initiative to increase the export earnings from the service sector (such as information and communication technology, consulting services, construction etc.) by providing all facilities for the development of this sector. Keeping the goals and objectives of the PRSP in mind, the government has taken the initiative to prepare the "Export Promotion Strategy Paper 2006-2009" as an integral part of the country's "Export Policy 2006-2009". One of the main objectives of the PRSP is to create jobs and generate income for the mass public of Bangladesh, and to cut poverty in half by the year 2015. This is to be accomplished by means of expansion of export trade".

While there is some consistency between the PRSP, IPO and EPO in terms of the aspects included, and the strong emphasis on export expansion, all of these policy documents have significant gaps with respect to the role of trade and trade policy in agriculture sector development. These gaps become particularly apparent when examining the National Food Policy.

2.4 National food policy 2006

In contrast to the trade related policy documents, which are developed in support of employment generation through export, the National Food Policy has a different set of objectives.

The document begins by stating that "the first and foremost responsibility of the State is to ensure an uninterrupted supply of food to all people at all time" and that "in the constitution of Bangladesh, it shall be a fundamental responsibility of the State to secure its citizens to the provision of basic necessities of food". It also notes that "the present food policy was developed in the light of the recently adopted Poverty Reduction Strategy Paper and also in a broader perspective according to the definition of food security as adopted in the World Food Summit".

In achieving these goals, three sets of objectives are listed:

Objective 1: To ensure adequate and stable supply of safe and nutritious food.
Objective 2: To enhance purchasing power of the people for increased food accessibility, and
Objective 3: To ensure adequate nutrition for all (especially women and children).

In essence, this provides a broader set of objectives against which policies are formulated than the trade policy documents which contribute only to Objective 2, and to a minor extent, Objective 3

Importantly, the policy document recognizes that domestic food production, public and private stocking *and international trade* together determine food availability at the national level, and that "with the liberalization of trade, global availability and prices of food are of increasing importance for ensuring national food security".

Of course, not all components of the National Food Policy include reference to agricultural trade, but important parts do. These are described in turn.

Objective 1: Adequate and stable supply of safe and nutritious food

The first strategy under this objective, strategy 1.1: *Efficient and sustainable increase in food production*, does not mention trade or trade policy. However, under Strategy 1.2: *Efficient food markets*, a number of relevant sub-strategies are mentioned.

Under 1.2.2 *Encouragement to private sector food trade*, the document recognizes that private sector food trade involves many millers, wholesalers, and small traders who buy, process, store, transport and sell food throughout the country and that modern milling, polishing, sorting, cleaning and packaging techniques need to be promoted to cater to both the domestic and export market demand. The following priorities are reflected:

1. Provide adequate incentives for private food marketing, processing, sorting and stock maintenance.
2. Manage private sector food imports through adjustment of tariff rates and extending other administrative support so as to encourage imports when needed and avoid excessive imports that might have negative impact on domestic production, and
3. Encourage export of agricultural products in times of surplus production and excessive market supply.

It goes on to argue that for the development of a trade-supportive legal and regulatory environment, the provisions for various marketing Acts and trade practices should be reconsidered. "To bring the markets under the trade supportive market regulations it is essential that, various forms of marketing charges, taxes and levies be rationalized and market development be ensured". Here, the Government will:

1. Establish a system of monitoring private storage and supply of food items.
2. Ensure recognition of the positive role of market intermediaries, and
3. Enact and enforce competitive trade promoting anti-trust and anti-monopoly Acts.

Objective – 2: Increased purchasing power and household access to food

Under this objective, the trade related component is evident, but restricted to the management of short term shocks. Under Strategy 2.1: *Transitory shock management*, the aim is to ensure private sector participation in meeting the domestic production deficit and enhance the economic access to food. To facilitate this, the Government will:

1. Ensure removal of restrictions on storage and movement of food.
2. Provide credit facilities for storage and stock-holding.
3. Support development of efficient storage and delivery techniques.
4. Encourage private imports through selective trade and fiscal policy measures to absorb internal and external price shocks, and
5. Extend public storage/handling facilities for use by the private traders at reasonable prices to ensure speedy and efficient delivery of food through the private sector.

The National Food Policy concludes by reiterating that "Food policy is gradually becoming more complex with the inclusion of all dimensions of food security (availability of, access to and utilization of food). These dimensions of food security policy have to be implemented by the concerned activities of various ministries, departments and agencies of the Government. Changes in world trade and food aid environment also influence the current strategies, which pose new challenges for the food policy in future. Coordination of food security enhancing activities needs to be accomplished at the national level".

3. Coordination in policy document preparation

Reading the National Food Policy in association with the other policy documents (PRSP, IPO, EPO) is revealing in a number of ways: (i) with respect to the more significant coverage of agricultural trade policy in the National Food Policy; (ii) the differences in emphasis; and (iii) the suggested need for greater coordination. In this regard, there appears to be a gap between the aspirations of the National Food Policy and the other policy documents.

Coordination is one potential reason for the apparent inconsistency across the documents and in part, this is a function of the different responsibilities assigned to the different Ministries and agencies in the PRSP preparation process *vis-a-vis* the development of the other policy documents.

For example, Table 3 lists those responsible for rural development including food security, and those responsible for macroeconomic stability and pro-poor growth. It is notable that neither the Ministry of Commerce nor the General Economics Division of the Planning Commission are associated with the former, and that even though agriculture is a key sector for ensuring pro-poor growth, that the Ministry of Agriculture is not associated with the latter theme.

Involving greater cross-Ministry collaboration under each theme is one issue, but clearly, some important components related to trade and trade policy are missing, or of reduced relevance, across the different documents.

The process of PRSP formulation is quite well documented in CPD (2004) and Ahmed (2004) which investigate how the PRSP was formulated, in the hope of identifying gaps, areas of limited coordination, and for understanding why trade policy was considered in a rather narrow, export focused, way, despite the fact that there are alternative and complementary avenues to poverty reduction.

The preparation of the IPO and EPO followed somewhat different processes. The Imports and Exports (Control) Act 1950 empowers the government to regulate

TABLE 3:
Responsibilities across different PRSP themes

Names of the thematic Ggoups	Ministries/Agencies responsible
Rural development including Food Security, Disaster Management, Safety-net Programmes, Micro credit and Rural Non-farm Activities	Lead Ministry: Rural Development and Cooperatives Division Associates: 1. Ministry of Relief and Disaster Management 2. Ministry of Food 3. Finance Division 4. Ministry of Social Welfare 5. Local Government Division 6. Ministry of Youth & Sports and 7. BRDB
Macroeconomic stability and pro-poor growth	Lead Ministry: Finance Division, Ministry of Finance Associates: 1. General Economics Division (GED), Planning Commission 2. Programming Division, Planning Commission 3. NBR 4. Bangladesh Bank and 5. ERD

Source: GoB (2005)

the import and export of goods and services. Every five years, customs issues a detailed import-export policy to guide import activities for that period. The MoC is responsible for formulating, implementing, enforcing as well as monitoring trade policy matters through the Bangladesh Tariff Commission (BTC), the Export Promotion Bureau (EPB), the office of the Chief Controller of Imports and Exports (CCIE). Tariff policy is formulated by the BTC. The import policy order (IPO) is taken and enforced by the CCIE. The consultative Committee on Exports makes preliminary drafts of the export policy and ultimately MoC finalizes these. It may be noted that, unlike the IPO, which has the status of law making, the export policy is simply a statement of intent without any legal authority. The National Board of Revenue (NBR) under the Ministry of Finance (MOF) administers all taxes together with custom duties and value added tax (VAT), tax holidays including other tax concessions. A good number of ministries and the concerned agencies, as shown in Table 4, are associated with the process of formulating and implementing trade and trade related policies of Bangladesh. However, coordination is maintained through meetings at inter-ministerial, cabinet sub-committee as well as cabinet levels.

There are also several policy consultative bodies with public and private sector participation, for example, the Import Advisory Committee and the Export Promotion Council, the National Committee on Export, the National Council for Industrial Development. The private sector is usually involved in the formulation of trade policy through its active participation in advisory bodies. The Federation of Bangladesh Chambers of Commerce and Industry is the apex body representing the private sector at the national level. Independent academic institutions, for example, Bangladesh Institute for Development Studies (BIDS), the Bangladesh Economic Association (BEA) etc., are often involved in trade related policy dialogues.

4. Conclusions

The aim of this paper, was, on the basis of a review of documentation of key policy documents and the processes through which they were developed, to identify the degree of consistency in the treatment and mainstreaming of agricultural trade and trade policy and, where gaps were identified, to understand the extent to which the extent of coordination between ministries, and consultation with key stakeholders may have been a factor.

The trade dimension of the PRSP and of both the IPO and EPO are squarely focused on supporting the expansion of key identified export sectors as a way of generating employment and resulting reductions in poverty levels. To that extent the documents are mutually supportive and consistent.

However, the treatment of trade and trade policy appears rather narrow in both the PRSP and the above two trade policy documents. Although considered in more

TABLE 4

Responsibilities of the Ministries for relevant trade and trade related issues

Ministries/Agency	Areas of responsibilities
Ministry of Agriculture • SARCAgricultural Information Centre Department of Agriculture Extension • Bangladesh Agricultural Research Council	• Agricultural policy, SPS
Ministry of Commerce • Chief Controller of Import and Export • Export Promotion Bureau (EPB) • Tariff Commission	• Import and export policies, WTO coordination, SAPTA and other regional agreements, insurance services • Registration of importers and exporters • Export promotion, textile quota administration • Tariff policy, anti-dumping and countervailing investigation, safeguards
Ministry of Finance • Bangladesh Bank • National Board of Revenue (NBR)	• Banking services, subsidies • Export finance, banking services, interest rate subsidies • Customs, pre-shipment inspection, customs valuation, tariffs and other duties, tax holidays and tax concessions, duty drawbacks
Ministry of Industry • Bangladesh Standards and Testing Institute • Bangladesh Small and Cottage Industries Corporation • Department of Patent Design & Trademarks	• Industrial policy • Standards • Small and cottage industries • Patents, industrial designs and trade marks
Prime Minister's Office • Privatization Commission • Board of Investment • Bangladesh Export Processing Zones Authority (BEPZA)	• Privatization of state-owned enterprises • Registration of investors (including foreign investment), investment facilities • Export processing zones
Ministry of Health	• SPS
Ministry of Planning • Planning Commission • Central Procurement Technical Unit (CPTU) • Implementation Monitoring and Evaluation Division	• Five Year Plan, Three-Year Rolling Plan, PRSP • Government procurement
Ministry of Textile and Jute	• Textile and jute policy
Ministry of Fisheries and Livestock	• SPS
Ministry of Food & Disaster Management	• Food and disaster management
Ministry of Environment and Forest	• Environment and forest policy
Ministry of Communication	• Road and rail transport

Source: Adapted from WTO Trade Policy Review (2006).

depth in the subsequent National Food Policy, which points to the importance of facilitating private sector trade in food commodities and in ensuring adequate storage of staples to mitigate the effects of short term stocks, there is also a lack of attention to the role that trade policy might play in assisting the development of import competing sectors and the role that these may play in ensuring food security.

Whilst it may be the case that these issues were discussed and subsequently dismissed in the thematic sub-groups involved in the PRSP preparation, their absence in the IPO is more suggestive of the use of a trade policy framework in which this aspect has received limited consideration. In part, this may be a result of the few opportunities for the Ministry of Agriculture to articulate the different roles that the agriculture can play, and the supportive policies required, to those ministries engaged in the formulation of trade stances and related trade policy.

It may also be the case that the constitution of stakeholder groups and the way in which these groups were consulted during the preparation of the I-PRSP and PRSP, was a factor in the limited attention to key components of agricultural trade. Unfortunately, given that only the process of consultation, and not the documented results, are publicly available, it is difficult to assess the degree to which this was a cause.

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7

Bangladesh - Articulating trade-related support measures for agriculture

Tofazzal Hossain Miah and Jamie Morrison

1. Introduction

The earlier chapter on trade policy demonstrates that although there has been a significant opening of the Bangladesh economy to trade, agricultural trade policy is still actively used in supporting both the development of exportables and in the "protection" of import competing products. It also highlights that trade policy can be as important in achieving objectives such as staples self-sufficiency as it is in the promotion of agricultural exports.

However, as in the case of trade policy, where export promotion is a much more explicit objective than import substitution, the identification of trade-related support measures (TRSMs) has also been predominantly focused on export promotion.

To a certain extent, the explicit focus on export promotion in identifying and prioritizing TRSMs is at odds with actual support expenditures on different categories of agricultural production *per se*. Section 2 illustrates the fact that significant support is provided which could increase the tradability of import competing as well as exportable commodities and products.

Section 3 then considers how the articulation of trade related support measures has been undertaken in practice by drawing upon a Taskforce Review completed under the auspices of the WTO in 2003. A number of action points from the Taskforce Review are listed and the initiatives taken by the Government highlighted. For a selection of the action points commentaries are provided by drawing on a series of project background papers which include supplementary findings on support measures required for the export of vegetables and shrimps. An attempt is also made to relate the specific documentation of TRSMs to the issues identified in the chapter on trade policy. Finally, Section 4 concludes with recommendations to improve the current process of identification and prioritization of TRSMs.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Narrowing the definition of trade-related support measures

A key difficulty in discussing the process by which TRSMs are identified and prioritized is in defining the scope of such measures. As illustrated in Section 3 below, narrowly defined, such measures are typically identified and designed with the facilitation of increased levels of exports in mind.

However, in most countries, more broadly defined support aimed at increasing the levels of productivity will also improve the tradability and competitiveness of crops that are not typically exported by the country. As such the definition of TRSMs can be a bit problematic.

For Bangladesh, information from the General Economics Division on agricultural growth priorities (summarized in Table 1) indicates that significant support was targeted not just at the exportable sector but also at the import competing sector. This reflects the fact that increasing the productivity and profitability of agricultural crops and non-crops have recently been given top priority in reducing poverty.

Assistance was provided to crop farmers through strengthened intervention in the agricultural input markets (for examples, seeds, fertilizer, irrigation, concessional interest rates, electricity tariffs) and in public food procurement. Such measures aimed at reducing the cost of agricultural production, helping producers to cope with price hike of inputs and in facing competition from neighbouring countries.

Bangladesh's WTO notifications on domestic support measures provide comprehensive information on various support measures. During the period covered by Bangladesh's first notification (1997/98 to 1999/00), the Aggregate

TABLE 1:
Agricultural growth towards poverty reduction

Strategic goal	Input indicators/policy change	Output indicators	Outcome/impact indicators
Increasing productivity and profitability of agriculture (crops and non-crops)	• expenditure on agriculture by sub-sectors as percentage of total public expenditure • expenditure on agricultural research and extension services • expenditure on irrigation • expenditure on marketing services • expenditure on agro-processing and agro-business development • expenditure for subsidies in agriculture • timely availability of agricultural inputs • expenditure on production of quality seeds • disbursement of agricultural credit by sub-sectors and farm size • protect crop lands from non-agricultural uses • improve land resource base	• new varieties of seeds • supply of inputs in the market • pro-poor extension services focused • irrigation infrastructure • supply of quality seeds	• per capita consumption of food grains, vegetables, protein, milk and milk products • agricultural wage rate by male/female • agricultural growth rate • household food security • employment by sub-sector and by male and female • poverty head-count ratio • regional and temporal price variation • agricultural output by sub-sectors • reduction of yield gaps • production of cash crops and high value crops • output of agro-processing industries

Source: General Economics Division, Planning Commission (2008)

Measurement of Support (AMS) exceeded Green Box outlays by up to 36 percent and grew faster for AMS than for Green Box measures. All product-specific AMS-related expenditure was used for price support operations for rice and wheat between 1995/96 and 2003/04. Until 1999/00 Green Box-type support was largely directed at research and development activities; from 2001/02, there was a shift toward extension and advisory services (Table 2).

In addition to support provided through various trade and related policies as discussed in the chapter on trade policy, the WTO TPR notes that "miscellaneous forms of public support to agriculture relate to research, agricultural extension, pest and disease control measures, training, marketing services, and various infrastructural services. Such assistance is provided both on a product-specific and general basis. A large part includes water development infrastructure, such as flood control embankments and drainage".

These statistics do not provide insights into the implementation of support measures. For example, the subsidy on diesel for irrigation was pre-fixed per unit of

TABLE 2:
Developments in domestic support to agriculture and livestock, 1997-04 (USD million)

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Total domestic support (I+II+III)	69.90	92.63	99.01	..	116.07	97.66	142.31
Share of total domestic support to GDP	0.16	0.20	0.21	..	0.24	0.19	0.25
Share of total domestic support to total tax revenue	2.06	2.75	3.10	..	3.13	2.27	2.96
Share of total domestic support to total government expenditure	1.23	1.50	1.45	..	1.64	1.29	1.70
I. Aggregate Measurement of Support (AMS)							
(a) Product-specific AMS							
Rice	9.25	14.02	15.14	..	-6.77	-3.85	-11.97
Wheat	5.33	3.62	1.46	..	-4.39	-0.58	..
(b) Non-product-specific AMS							
Indirect subsidy through the use of electricity for irrigation at subsidized rate	6.65	8.93	7.14	..	7.68	7.32	8.24
Subsidy provided through manufactured fertilizer and indirect subsidy to farmers through imported urea fertilizer	15.40	26.83	33.04	..	64.22	44.53	58.50
II. Measures exempt from the reduction commitment – "Green Box"							
General services	33.20	39.02	42.01	..	55.12	50.06	87.42
(i) Research and development of non-rice crops, (fruit, vegetables, spices for FY 96-97, 97-98, 98-99) except sugar cane, jute, cotton, and tea	12.77	12.66	15.25	..	10.34	9.32	12.58
(ii) Research and development of rice crops	3.93	7.66	7.21	..	1.06	2.73	3.76
(iii) Research and development of sugar cane	0.97	1.31	1.44	..	0.99	1.07	1.05
(iv) Research and development of cotton	0..40	0.40	0.39	..	0.37	0.35	0.38
(v) Research and development of jute	0.38	0.45	1.04	..	0.48	0.52	0.53
(vi) Pest and disease control	0.01	0.01	0.01	..	0.02	0.46	0.47
(vii) Training services	0.08	0.14	0.34	..	4.10	1.21	1.28
(viii) Extension and advisory services	0.53	0.95	1.95	..	30.50	27.44	59.39
(ix) Marketing and promotion services	0.94	1.13	1.03	..	0.60	1.49	2.11
(x) Infrastructure services	0.99	0.44	0.61	..	2.29	0.06	0.06
(xi) Research and extension for improving dairy sector	5.12	5.06	4.82	..	2.12	2.19	3.22
(xii) Research and extension for improving poultry sector	7.48	8.81	7.92	..	2.25	3.22	2.59
III. Measures exempt from the reduction commitment Special and Differential Treatment "Development programmes"							
Investment subsidies available to poor and marginal farmers (including fisheries and livestock subsectors)	0.07	0.21	0.22	..	0.21	0.18	0.12
(i) Re-finance facilities provided to farmers at a concessional rate of interest at 1.5% per annum for credit to "Special Economic Zone of the country"	0.03	0.14	0.12	..	0.10	0.09	0.09
(ii) 2% interest rebate for repayment of loan on schedule. This is generally available to marginal farmers	0.04	0.07	0.10	..	0.11	0.09	0.03

Source: Adapted from WTO Trade Policy Review (2006)
.. Not available

land and has provided incentives to cash constrained farmers. However, the total area irrigated by small farmers is not significant and therefore the benefits of these subsidies were minimal (Mandal 2010, pers. comm). This was compounded by weaknesses in implementation. Similar difficulties were associated with electricity subsidies which primarily benefited owners of deep tubewells. Significant benefits have, however, been observed as a result of more timely delivery of inputs.

The above measures, although increasing the tradability of import competing crops, are not strictly "trade support measures". To a similar extent, measures to support improved productivity are included in the Export Policy 2003-2006 which "envisages special measures to promote the tea industry, including rehabilitating tea gardens, connecting gas to tea gardens to ensure their price competitiveness, loans for sick tea gardens, as well as more traditional "trade support measures" such as loans on easy terms to help promote tea quality, increased productivity and modernization of tea plants, and duty-drawback/bond warehouse facilities for imported packaging materials" (WTO, 2006).

Action has also been taken to support the jute industry, which as explained in the chapter on trade policy, had been negatively impacted by government involvement in procurement and processing activities. A Jute Diversification Promotion Centre (JDPC), set up in 2002 under the Ministry of Textiles and Jute, has provided financial assistance through a Tk 200 million revolving fund to support jute-diversified enterprises, a Tk 30 million grant fund extending incentives, not exceeding 15 percent of the machinery cost, to investing entrepreneurs to reimburse the cost of acquiring new technologies and related training, market survey, intelligence and promotion; and an investment fund to ensure adequate supply of funds to entrepreneurs investing in diversified jute products (WTO 2006).

As indicated in the trade policy chapter, Bangladesh also introduced a direct cash subsidy of up to 30 percent for certain agricultural and fisheries exports (frozen shrimp and fish, fruits, vegetables, agro-processed products) in 2003. In fact, the budget allocation in 2005/06 for subsidies and other assistance to the agriculture sector doubled and agricultural products have been gradually becoming an important component of its foreign trade.

3. Trade-related support measures for the development of agro-based industries

While the fact that Bangladeshi agriculture receives many different forms of support, both to exportable and import competing sectors, is clear, the process by which support related to the facilitation of increased trade is identified and prioritized is less so.

Unlike other LDCs, Bangladesh has not been subject to a DTIS. However, in a somewhat similar process, the Taskforce Review (2003) on the trade policy of Bangladesh was drawn up by the WTO Secretariat. One component of the Taskforce Review details the major actions taken and/or decided upon by the government for the development of agro-based industries of the country. As such, it provides an indication as to the way in which prioritization and implementation has proceeded, although there is little documentation on the process itself.

In what follows, 19 of the most relevant identified actions are discussed. Most have an almost exclusive export focus, to the extent that the heading under which most of the agriculture related measures are listed is "Development of Export–Oriented Agro-based Industries".

The actions and initiatives taken by the Government are reproduced verbatim. However, the discussion is elaborated with commentaries on more recent discussions of identified needs of, and initiatives taken in support of, the export of vegetables and shrimps and which are documented in project papers prepared by Monowar Hossain and Mitul Saha "Vegetables Trade in Bangladesh" (Hossain and Saha 2010; AHM Monirul Haque "Support Measures for Improving Vegetable Production and Export Market of Bangladesh" (Haque 2010); Md. Nazrul Islam "Support measures for improving shrimp production and export market of Bangladesh" (Islam 2010); and Md. Taj Uddin "Value Chains in Bangladesh Shrimp Trade" (Uddin 2010).

At a general level, Islam (2010) notes that the production level of shrimp is very low at around 250 kg/ha/yr and that there are a number of factors contributing to this low yield. In regard to marketing, the long supply chain of raw material collection, inadequate infrastructure facilities, poor level of maintenance of the cool chain, and lack of adequate HACCP based training on hygiene and sanitation at the field level are the main problems of quality loss of raw materials.

For vegetables, Haque (2010) points to a number of issues constraining the amount of quality product for export. Poor pre-harvest practices such as withdrawal of irrigation to harden the crop before harvest, not using the correct harvest indices for each variety and crop can affect post-harvest quality in perishable vegetables. For example, if tomatoes are picked after full colour is developed, the fruits do not survive transport beyond the primary market. Mechanical injury due to poor handling, microbial infection during storage and packing and transport from distant areas, are causes of post-harvest spoilage. It is estimated that 16-43 percent percent of post-harvest losses are experienced in the handling of perishable vegetables and fruits. Various studies demonstrate that there is a considerable gap between the gross production and net availability of fruits and vegetables due to heavy post-harvest losses that are estimated to be of the order of 20-30 percent of the production. The loss estimates include those for onion (16-35 percent), tomato (20-30 percent), cabbage (42-47 percent), cauliflower (45-49 percent), and lettuce (60-62 percent). Cultivation operations and harvesting might contribute a loss about 2-5 percent, transportation 5-10 percent, storage 10-15 percent and minor operations 2-5 percent. The loss assessment studies have been conducted to quantify the losses of selected fruits and vegetables throughout the post-harvest handling chain.

When post-harvest losses are small, a percentage increase in production slightly greater than the post-harvest loss will make up the deficiency. As the percentage loss increases, the percentage increase in production required to offset the loss increases rapidly. It requires a 25 percent increase in production to offset a 20 percent post-harvest loss, a 66 percent increase to offset a 40 percent loss, and a 150 percent increase to offset a 60 percent loss (Haque 2010).

Actions reported in the Taskforce Review[1]

1. *Provide credit, interest as well as other facilities and/or incentives to promote export-oriented agro-processing industries*

Government of Bangladesh (GoB) initiative: In 2002, the GoB announced a 15 percent cash incentive for the frozen food sector (see trade policy chapter). The Commerce Ministry recommended that the Finance Ministry waive the interest partially and sanction fresh loans to the enterprises after transferring the same amount to block accounts. The GoB through a circular issued on 2 May 2002, requested banks to waive interest partially and provide block account facility. Some steps have been taken by the GoB to reduce the cost of funds available to agro-based industries, but this is not a concerted effort and depends on bank and client relationships which vary significantly from bank to bank and from client to client.

Commentary: Shrimp processing units need credit facilities to update processing technology by allowing shrimp processing units to access the concerned technologies and acquire the capability to put in place quality control measures required by the relevant importing countries. Islam (2010) notes that the Central Bank (The Bangladesh Bank) had encouraged Commercial Banks to finance the shrimp projects through provision of a Credit Guarantee Fund or reimbursement facilities. Under the credit guarantee scheme, an entrepreneur was allowed to take bank loans of four times his/her own investment without any collateral.

2. *Import related equipment, for example reaper vans and refrigerated containers, should be exempted from duty and VAT for supporting preservation of horticulture crops*

GoB initiative: No action has been taken by the government.

[1] This subsection is broadly based on elements of the WTO Taskfore Review, with commentary based on project papers.

3. Import of chemical preservatives as well as preservative technology should be exempted from tax, VAT and duty for supporting food-processing industries

GoB initiative: Reduction of duties on many inputs for supporting food-processing industries has been implemented, but the VAT exemption has not been implemented.

4. Provide credit, tax, VAT and duty facilities for import of technology to support standard packaging

GoB initiative: In the case of inputs, duty has been reduced on many packaging items, but there is no GoB initiative to set up a packaging institute to develop international standard packaging for food items.

5. Establishment of 'Exporting Firms Group' based on export markets should be encouraged and supported through credit, tax, VAT and duty exemption facilities and technology transfer

GoB initiative: No initiative has been taken by the government.

6. Air cargo space for export of agro-products should be increased and other facilities such as offloading and cool room facilities in the cargo shed should be enhanced

GoB initiative: No initiative has been taken by the government.

Commentary: For exports of fresh produce which are primarily dispatched by air freight, the pressing need is to upgrade the facilities at Zia International airport, Dhaka. A dedicated and detailed study of existing and required systems would help to define the current level of expertise and qualification among personnel as well as the audit of facilities and equipment, to itemize areas that need to be strengthened. Quarantine facilities at Chittagong are equally in need of upgrade, but for fresh produce exports the pressing need is at the major international airport.

Horticultural exports from Bangladesh can be improved by replacing the Special Inducement Price (SIP) for horticultural exports with an equivalent increase in the export subsidy to shift exporters' attention from securing cargo space on Biman to other measures to improve overall movement of exports, and also explore sea freight as an alternative to air freight where appropriate.

7. Reduce export freight charges to regional levels

GoB initiative: Air freight for vegetables exports has been reduced.

Commentary: Hossain and Saha (2010) suggest that for the export of agricultural products, additional space in the aircrafts should be allotted and separate cargo aircrafts should be arranged, and both air and sea fare for transport of agricultural products should be reduced to a reasonable rate. He notes that Biman Bangladesh Airlines will take initiatives to introduce a regular "Cargo Freighter Service" with Europe.

8. Institutionalize and implement quality control measures. The BSTI (Bangladesh standard and testing institute) should be equipped with modern and appropriate technology and most qualified manpower to support standardization of export-oriented agro-industry products

GoB initiative: Some steps have been taken to modernize BSTI. Despite this, much more efficient action should be taken towards capacity building at BSTI to ensure compliance with requirements emanating from the WTO agreements.

Commentary: It has been noted that BSTI provides the regulatory framework for product standards, but its implementation is not free from criticism. It is argued that the government should undertake a campaign to raise awareness among the exporters of ISO-9000 (quality standard) and ISO-14000 (environmental standard) and provide adequate policy support and incentives to encourage the concerned entrepreneurs to achieve such goals.

Clearly, quality control is a key issue to be improved if export markets are to be fully exploited. EU countries continue to be sensitive to HACCP compliance issues, forcing the country's frozen food exporters to seek increased shipments to the USA. The country has an excellent opportunity to export its frozen food to the US market as other major exporting countries such as India have been facing anti-dumping barriers by the US.

FIQC has three stations located at Dhaka, Chittagong and Khulna with modern laboratory facilities. However, they require more scientific qualified technical manpower, and further more sophisticated facilities to effectively conduct the quality assessment.

There is increased pressure from importing countries for fish processors to establish effective quality assurance systems in their plants (Hussein and Islam, 2005). These have been further complicated by inclusion of the Bio-terrorism Act, Antidumping Act, COOL system and traceability regulation.. The Bangladesh government has emphasized two main issues: (i) quality and safety (bacteriological quality, contaminants, residues, additives and traceability) and (ii) trade issues (labeling, documentation and G.S.P).

As of now, HACCP is applied on the processing plants, but to ensure the quality of production and to reduce risks, shrimp farms are also required to adopt HACCP methods. Processing plants, being the large investors and the ultimate risk takers in the business, have already adopted the procedures mentioned in HACCP rules, but it has been difficult for them to impose it on small shrimp farms. Most shrimp farmers are aware of the risks in business but they are not adequately motivated actively adopting the standards. Also, most farmers need to be trained on the impact of chemicals (used during crop production) on shrimp quality (Haque, 2003) and the GoB's assistance is required in this respect.

Similarly, for vegetables, it is suggested that a separate HACCP scheme for vegetable freezing should be operated in line with the fish processing industry of Bangladesh. Hossain and Saha (2010) add that the upgrading of laboratory testing facilities for pesticide residues and other contaminants/heavy metals and provision of a subsidy for testing charges to be paid by the stakeholders need to be introduced. Equally, there is a need for strict regulation and monitoring to restrict marketing of inferior quality seeds, adulterated fertilizers, pesticides, and for strengthening food safety legislation and enacting laws and regulations for quality control for all types of agricultural inputs, including agro-chemicals and medicine.

9. *Support overseas market research for agro-exports through projects such as Matching Grant Facility (MGF)*

GoB initiative: A notable success has been observed through MGF project for supporting agro-export efforts, but the MGF project is at the end of its tenure and needs to be extended in a more focused form and its disbursement linked to performance to make it more effective.

Commentary: For frozen vegetables, a comprehensive programme of market research should be initiated to identify global market potential by region for each major product. A programme of proactive market promotion in target markets should be initiated and a realistic strategy for development and marketing of frozen vegetables should be prepared following the result of test marketing.

10. *Existing anomalies in duty structure, which result in a higher duty on raw materials, inputs and packaging as against processed imports and thus make locally produced agro-products relatively non-competitive, will have to be removed*

GoB initiative: Duty anomalies existing in 2001 have been removed to some extent. Nevertheless, some of the following anomalies are hampering rapid growth of the agro-based industries of Bangladesh:

(a) Expansion units of existing agro-based industries which are enjoying tax holidays are not currently eligible for such tax holidays. To encourage expansion of agro-based industries, expansion units of existing agro-based industries should also be provided the option of tax holidays.

(b) Publicly listed companies currently receive a 10 percent rebate of corporate tax if they pay a dividend of a minimum of 20 percent. To stimulate the agro-sector, publicly listed agro-based companies who pay dividend of minimum 15 percent should also be entitled to 10 percent rebate.

(c) Publicly listed companies pay corporate tax at the rate of 30 percent. Corporate tax may be fixed at 20 percent for agro-based publicly listed companies.

(d) Presently VAT at 15 percent is levied on all agro-based products. To encourage the agro-sector, VAT could be totally withdrawn, or VAT at 15 percent could be levied only on the value added portion and not on indigenous raw materials.

(e) VAT is levied on milk products while white milk is VAT free. To stimulate milk production and consumption, VAT on milk products should be charged only on the value added portion.

(f) Duty drawback claims are not being reimbursed for months together. Claims should be refunded by local banks on receipt of export proceeds.

(g) Cash incentive of 15 percent on exports of agro-based products, which was announced in the budget has not been paid. This should be paid by local banks on receipt of export proceeds to make exports more competitive.

<u>Commentary</u>: Not unsurprisingly, given the review in the chapter on trade policy, this action point receives significant attention in the Taskforce review. Hossain and Saha (2010) comment that government policies significantly influence vegetables export performance. The following decisions were taken by the government (The Export Policy for 2006-2009) and these were published as Export Principles for Highest Priority Sectors under Agro-products and Agro-processing Products:

- Contract farming will be encouraged for the production of exportable vegetables.
- Government Khas (Government owned) land, if available, will be allotted to interested exporters for the production of vegetables and fruits and establishment of export villages will be encouraged.
- Production of modern and scientific packaging materials necessary for the export of vegetables, foliage and fruits will be encouraged.
- Cultivation, production and exportation of potato will be encouraged.
- Training system for the producers and exporters of vegetables, flower's-foliage and fruits will be continued.
- Strong checking in borders to protect unwanted penetration of low quality and adulterated inputs.

11. Operationalize the Entrepreneurs Equity Fund (EEF) floated in the 2000/01 budget to be targeted to the agro-processing industry

GoB initiative: The EEF's coverage now includes agro-processing industries. However, the procedures for accessing loans from EEF, which has been increased to Tk 300 crores from Tk 100 crores in 2000/01, need to be further simplified if this facility is to be widely accessed.

12. Provide bonded warehouse facilities to enable agro-industries to import their inputs.

GoB initiative: No action has been taken in this regard.

13. To set up intermediate input industries, for example, packaging, bottling, printing, etc.

GoB initiative: No initiative was taken by the government to establish input industries, but some private sector industries have come up.

14. Establish a research institute for agro-industry

GoB initiative: No initiative was taken by the government.

15. Support the development of suitable varieties such as baby corn, French bean, okra, mushroom etc., and promote their introduction in the market, both domestic and overseas

GoB initiative: No government initiative was taken.

16. Establish a HYV seed research and multiplication institute

GoB initiative: No government initiative was taken

17. Establish an agricultural product development authority to offer one window assistance to local exporters and foreign importers of agro-industrial products

GoB initiative: No government initiative has been taken.

Commentary: Despite all the advantages of production of horticultural crops in Bangladesh and the gradual shift from subsistence to commercial farming, exporting fruits and vegetables is difficult. There are various steps that the producers as well as exporters have to perform in accessing and sustaining their presence in the export markets. Timely harvesting, efficient pack house operation, packing, palletization and cool chain transportation are the most important measures could be taken to sustain the export markets.

Hossain and Saha (2010) suggest that an assessment of how to restructure and revitalize the Horticulture Export Development Foundation (HORTEX) to transform it into a more effective institution in respect of manpower, logistic facilities and financial capability is required. They go on to note that an "Agro-Products Business Promotion Council" will be formed to improve and control the quality of agriculture and agricultural products.

18. Ensure adequate human resource development through establishment of a food technology institute with modern facilities

GoB initiative: No government initiative has been taken.

19. Develop an effective infrastructure for transportation of perishables

GoB initiative: No government initiative has been taken to develop effective infrastructure for transportation of perishables.

Commentary: For the vegetable sector, Hossain and Saha (2010) suggest that developing physical infrastructure (pack house, cool chain, testing laboratory services), improvement in packaging system and quality management needs to be undertaken to respond the buyers' requirements regarding health and environmental issues. Interestingly, they suggest that strengthening private public partnership in market infrastructure development, packaging, transportation etc could be the mechanism through which this is delivered.

In addition to the action points above, there have been efforts to develop the capacity of the MoC staff to understand and engage in trade policy developments and negotiations, in particular with respect to the WTO. There is, however, a need to broaden the dialogue on trade issues to individuals and organizations outside the main government Ministries (for example, the Bangladesh Bank, BIDS and Universities).

4. Conclusions

This brief review suggests that explicit identification and prioritization of trade support measures appears to be restricted to products with perceived export growth potential. Two key issues emerge from the review.

Sequential alleviation of constraints

While a significant number of potential constraints that can be alleviated through the implementation of trade support measures have been identified and justified in documentation and related literature, many such measures have not been, or have only partially been, implemented.

Prioritization does not appear to have received sufficient attention. However, given limited resources and capacity, prioritization is critical. An interesting observation made by Haque (2010) is worth highlighting:

> "There is little point in addressing or improving individual limiting factors alone. As with a metal chain in which the strength of the chain is only the strength of the weakest link, the same applies to the production processing and transportation in the fresh produce supply chain. Before embarking on a wholesale revision or upgrading of individual components it would be sensible to consider the probable creation of a new limiting factor (weakest link). For example, increasing production of exportable produce would be pointless unless the air freight bottleneck was widened and freight services made more reliable using meaningful contracts backed by enforcement. Similarly it would be irrational to expect an increase in air freight capacity to open up European markets automatically. SPS standards and controls would need to be met for the targeted market."

There needs, therefore, to be much greater attention to prioritization, and to determining how to approach the sequential alleviation of constraints, rather than simply listing these and attempting to address them on an ad hoc basis.

A more balanced approach to identification

Although trade related support measures to facilitate exports are relatively well documented, it is not clear that measures (i) to support the management of imports in potential competition with domestically produced commodities and/or (ii) to increase the tradability of domestically produced import substitutes, has received sufficient attention.

The chapter on trade policy illustrates that trade of importables is restricted (often for short periods) relatively actively. However, for trade to be managed efficiently, a range of trade support measures, including those that allow improved monitoring of import flows and prices and those that build the capacity to design and implement appropriate trade policy, will be necessary. Such measures also need to be more fully reflected in the identification of trade related support measures.

Adding to the complexity of identifying trade policy support measures is the increasing need to work with trade partners to address key concerns about environmental and climatic change which pose significant risks to future food security. Initiatives might include, for example, improvements in road infrastructure and flexible trade pacts, but these need to be developed on the basis of a much more thorough understanding of the potential impacts of change and the most appropriate mitigating policy interventions.

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Ghana - Agricultural trade policy issues

Ramesh Sharma

1. Introduction

This chapter discusses Ghana's trade policy issues – the next two chapters cover related topics of trade mainstreaming and trade-related support measures. The process followed by Ghana for formulating its 2004 trade policy was remarkably comprehensive. This involved several steps: a thorough review of relevant literature; preparation of an "options paper" that collated a total of 167 policy options in several thematic areas; stakeholder consultations to discuss the issues and fine-tune the options; and focus group consultations that reduced the options to 67 for the final trade policy paper. While policy positions on several issues were thus articulated, trade policy formulation is an ever-evolving process and the debates never cease. Experience gained during implementation and new developments in internal and external environments, e.g. the 2008 global food crisis, make the process continuous.

The debates on trade policy that took place in 2003 and 2004, especially the options and their pros and cons documented in the options paper, are an important source for continuing this discussion. Subsequent to that, important developments have taken place such as the ECOWAS common trade and agricultural policies, the EPA negotiations and an interim EPA, and the formulation of other important policy frameworks like the PRSP and agriculture and industry policies.

It is against this background and new developments that this paper seeks to contribute to discussions on the process of articulating appropriate trade policy. The background works leading to this and other papers under the FAO trade policy articulation project were undertaken by a team of analysts in Ghana on the basis of literature review, data analysis and stakeholder consultations. About 10 national experts contributed to the background work, the study itself coordinated by the Institute of Economic Affairs (IEA), Accra. Many meetings were held with government officers, non-state stakeholders and civil society for their views on policies. An attempt is made to reflect diverse views found in these sources. The background study that contributed to this paper is on trade policy by Egyir *et al*. (2010); other background papers that were also helpful were Nimoh and Yeboah (2010) on trade mainstreaming, Asuming-Brempong (2010) on trade support measures and Mensah-Bonsu and Addo (2010) on the state of trade policy analysis.

The next section presents trade and related policy issues for selected prominent agricultural products and several general topics. Section 3 is a commentary on six cross-cutting issues that emerge from the discussions in Section 2.

2. Key trade policy issues

As policy interventions and the extent of support and distortion are typically product-specific, it is insightful to review issues and policies for specific products. Four product groups are considered for this: traditional and non-traditional crops on the export side, and rice and other import-competing prominent food products on the import side. In addition, two cross-cutting topics are also discussed: ECOWAS CET, safeguards and ECOWAP agricultural policy; and interim EPA/full EPA.

2.1 Traditional and non-traditional export products

Traditional export - cocoa

Among traditional products, cocoa is Ghana's single most important export product and so deserves special attention. Being an export product, there are fewer divisive trade and pricing policy issues. Three can be singled out for discussion here: i) overall taxation and producer's share in the export price; ii) export tax, and iii) value added exports.

That most developing countries historically taxed their export agriculture rather heavily is well known. The sources of taxation were both direct export tax and indirect forms of taxation like industrial protection and exchange rate overvaluation. Farm taxation has fallen markedly over the years. For Ghana's cocoa, according to the World Bank's recent study (Brooks *et al.* 2009), such taxation fell from as high as about 80 percent in the early 1980s to about 22 percent in recent years, direct export tax being the main source now.

Another way of interpreting these numbers is in terms of the share of the export price received by farmers. Raising this share has been a stated goal of the GoG and the Cocoa Board. This has been accomplished – the share was only 21 percent in 1983, 40 percent by 1995, 50 percent by 2000 and has been about 70 percent after

2004. In addition, bonus payments to farmers have also increased. So it seems that a major issue has been resolved.

The second policy issue is export tax. In the trade policy options paper (Ghana 2004b), three options were identified on cocoa export taxation: i) removal of existing export taxes; ii) justify the tax on the basis of services provided and/or exemptions from other taxes; and iii) status quo. Option (ii) was eventually selected in the 2004 national trade policy (Ghana 2004c, GNTP04 in short) (see next chapter). One argument made for the justification was that cocoa farmers are exempted from other taxes normally payable (could be income and profit taxes) and so it makes sense to tax export in equivalent amount. Currently, the tax rate is determined annually – for 2007/08 it was 11.1 percent of the f.o.b. price. The revenue derived from the tax is used to finance COCOBOD's activities (Ghana also applies import tariff of 20 percent on cocoa and cocoa products). This option will entail some complex analytical work if the annual tax rate is to be determined based on the services provided and concessions granted (the "equivalent" argument).

The third issue noted above is the production and export of processed cocoa products (cocoa butter, powder and paste). The GoG's medium-term objective is to process at least 40 percent of the cocoa output locally. One major impediment identified is tariff escalation in export markets, and so attention is drawn to the WTO trade negotiations. The mix of the raw and processed exports is also determined by relative incentives at home (e.g. export tax, other incentives to industries) but these issues were not raised and clarified in the options paper. This will require some further work.

Non-traditional exports

With a view to diversify exports, the GoG has been promoting a variety of non-traditional exports; about 15 or so products are often listed. These include pineapples, pawpaw, mangoes, pepper, other spices, cotton, coffee, shea nut, coconut, tobacco and palm oil. Production and export of some of these products have increased markedly in recent years, led by pineapples. But for many other products, output has been stagnant or even falling. Naturally, the policy attention is focussed on raising productivity and production, quality and standards, trade facilitation measures, and market access.

In the area of trade and pricing policy, a review of the literature and policy documents shows that one issue that has been prominent is the provision of incentives to industries producing and processing the export products. Unlike with cocoa, there are no direct export taxes on these products, nor any indication that this is an issue.

The issue of incentives was addressed by the options paper. It noted that non-traditional export crops receive some incentives. One is concessions on income-tax to exporters. The exporters of these products are taxed at the company tax rate of 8 percent instead of the standard 35 percent, regardless of export performance. Another scheme provides direct export incentives through company income tax rebates to all exporters according to export performance. The rebate is available to manufacturers exporting at least 5 percent of their production, increasing with the share of the production exported. The maximum company tax rebate of 75 percent, corresponding to a tax rate of 8 percent, is granted to manufacturers exporting more than one-quarter of their production. Agricultural and manufacturing products attract different rebates.

In the Options paper, three options were considered for export incentives: i) introduce export subsidies in the form of cash payments or rebates to exporters (extending the existing income tax rebates); ii) explore more subtle (Green or Amber Box in the WTO definitions) ways of subsidising exporters' costs; and iii) do nothing. The negatives (against the assistance) listed were: i) difficulty to identify beneficiary sectors and products; ii) possible expensive "subsidy race" with competing exporters (e.g. Nigeria); and iii) possible retaliation by some of Ghana's important trading partners (the EU and US were mentioned). The plus side said was increased ability to compete more in export markets.

In the GNTP04 itself, the policy prescriptions included were facilitating access to export credit, provision of cash payments, tax rebates, exempting key imported inputs from VAT, and "effective WTO-compliant subsidies." It is not clear how much of these have been implemented and what new issues have come up.

2.2 Import-competing basic foods

The declining self-sufficiency rates of many basic food products attract widespread public attention, both for reasons of the high import bills and high levels of poverty in food producing areas that are dominated by small farmers. The role and level of tariff protection in raising self-sufficiency levels are thus topics that come up frequently. These debates have taken place for several foods, the most prominent being the following: rice, poultry, dairy products, sugar, tomato paste and onions. Rice, poultry and tomato paste have also been the subject of several studies on import surges and negative effects on farmers. This is an issue that makes headlines also in other countries in the region.

Rice

As elsewhere in the region, rice consumption has been increasing rapidly at some cost of coarse grains and tubers, driven by urbanization and higher incomes. The demand for rice will continue to grow strongly. Rice self-sufficiency rate is 33 percent. The rate of growth of domestic production is low, and so is yield at around 2.27 tonne/ha.

Given the importance, Ghana has formulated a national rice development strategy (NRDS). It states, "It is desired that Ghana will double local rice production by the year 2018 so as to contribute to food security and increased income in rice production."[1] Three main objectives identified in the strategy are: i) to reduce rice imports by 50 percent through the promotion of productivity-enhancing innovations of small and commercial rice producers and entrepreneurs along the value chain; ii) to promote consumption of local rice through quality improvement, value addition and domestic and regional marketing; and iii) to promote stakeholder innovation capacity for the utilization of rice by-products while ensuring sound environmental management practices.

Realizing the vision of the NRDS will require not only increased production but also the production of the variety that is in demand, namely long-grain and aromatic varieties. This is a difficult challenge. In the 2005 budget speech, it was said that the target is reducing rice importation by 30 percent. Among the measures mentioned is speeding up the implementation of the new NERICA rice variety initiative.

In the literature on rice policy, two topics in particular were prominent.[2] One was a debate on whether there is a trade-off between increasing rice production by focussing on small farmers on the one hand and on large farmers on the other. The issue was whether the target is improving household food security (the former strategy) or the national food security (the latter). The other issue was rice self-sufficiency at the national level versus the regional (ECOWAS) level. With the region moving towards a customs union, the question asked was does it make sense to discuss rice self-sufficiency at the national level. This discussion is further taken up in the next section. The global rice crisis of 2008 also prompted a fresh debate on these issues.

Other food products

In terms of the debates, the prominent trade policy issue for rest of the basic food products has been tariff protection and safeguard against import surges. As imports increased rapidly, the swelling food import bills and the undermined competitiveness of domestic production and agro-industry attracted public attention, putting pressure on the government to act. In the mean time, frequent surges of imports and the difficulties these create for local farmers and businesses become headline news that the government cannot ignore. In Ghana, and in the region in general, besides rice, the following products have attracted intense attention in these contexts: wheat and flour, poultry, dairy products, sugar, tomato paste, potatoes

[1] National Rice Development Strategy (Ghana 2009a). Note that doubling of the production in a decade requires an annual growth of 7.2 percent, which is very high relative to recent trend.

[2] For details see Lancon and Benz (2007) and USAID (2009a and 2009b).

and onions. That these were sensitive products for Ghana, irrespective of the surges, can also be seen in terms of the applied tariffs on these which, around 2004-2005, were roughly twice in Ghana than in the WAEMU CET.

Import surges and import competition have been analysed by several studies during 2004-08.[3] Thus, according to the FAO case study (FAO 2006), *poultry* imports surged from 4 000 tonnes in 1998 to 124 000 in 2004, and poultry industry was suffering (low capacity utilization of about 25 percent for hatcheries, 42 percent for feed mills and 25 percent for processing plants). A widely-shared view in Ghana then was that the surge was associated with the lowering of the import tariff. This was also acknowledged by the GoG, proposing in its 2003 budget a doubling of the tariff to 40 percent. This bill was passed but quickly withdrawn, allegedly under the IMF pressure. The issue also came up recently in the 2010 budget speech when promises were made to raise tariffs as well as to assist the industry through various domestic support measures.

Likewise, *tomato paste* industry, as well as fresh tomato production, hit headlines many times for the similar reason. The surges were blamed to the removal of protection under the SAPs, precisely when export subsidies on tomato concentrates were scaled up in Europe. According to the FAO study, tomato paste imports rose from 3 300 tonnes in 1998 to 24 740 tonnes in 2003 while domestic market share fell from 92 percent to 57 percent. The issue came up again in 2007 when the GoG imposed a temporary freeze on tomato paste imports.

While the above are *ex post* studies of the problem, there are also several studies that analysed *ex ante* the likely impact of trade liberalization (and EPA) on these products and agro-industries. As an example, the EU-commissioned study on EPA (SIA 2004) finds, based on economic modelling, that if West African countries were required to fully liberalize, food imports will increase markedly (e.g. by 16 percent for onions, 15 percent for potatoes, 16 percent for beef, and 18 percent for poultry). It also points to further possibility of import surges as experienced in the past.

Also importantly, the SIA study alerts on several cross-commodity linkages that need to be taken into account. Thus, while this region is not competitive on wheat production, wheat import surges impact negatively on the demand for other local cereals. The same is the case between poultry imports and local beef production, as well as massive poultry imports hurting local maize production, as happened in the past. The likely negative impacts will not be limited to the importing country – these also undermine regional trade and integration. For example, poultry imports reduce

[3] For Ghana, fairly detailed studies were done by FAO (2006), Action Aid (2008) and ISODOC (2004), among others. Some of these studies also cover other countries in the region. See also Khor and Hormeku (2006), Patel (2007) and SIA (2004) for these issues.

demand for beef from beef-exporting Sahel countries. It is for this reason that the issue of regional integration is linked to trade liberalization, as has been stressed during the EPA negotiations.

How should debates on issues like these and analyses be utilized for the purpose of articulating appropriate trade policy? While the above discussion focussed on trade issues, it is well recognized that there are many problems with other aspects of agro-industrial development. This was also recognized in the FAO surge case studies – while surges did occur and injury was recorded, there were also other domestic factors that undermined competitiveness (the so-called "non-attribution" factors in the WTO safeguards investigations). For example, investment on agriculture has been historically inadequate, and very little was done to develop value chains of food products. These gaps are now recognized and recent policies and plans are addressing these issues (discussed in the subsequent chapter on trade support measures).

2.3 ECOWAS CET, safeguards and ECOWAP

These regional trade and agricultural initiatives will be increasingly important for the ECOWAS members. The challenge is to ensure that regional policies and national policies are closely aligned. The next chapter provides a brief on the main features of the ECOWAP and some issues. What follows therefore is limited to two remarks on issues more closely related to trade policy.

As regards the *ECOWAP*, two points may be noted. First, Ghana, as other members of the ECOWAS, would need to ensure that adaptation to the ECOWAS CET is smooth. Adopting the level of protection allowed by the ECOWAS CET might cause some adjustment problem to some products and sub-sectors that have been protected at a higher level. In those cases, which need to be identified based on analyses, appropriate alternative support measures may be needed for easing the adjustment.

Second, there may be a need for harmonizing the list of strategic or special products envisaged by the ECOWAP and those in Ghana's FASDEP II and the PRSP. Likewise, the 2008 *Regional Initiative for Food Production and the Fight Against Hunger* identified some strategic food value chains to be put in place. These include millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products. The FASDEP II has also prioritized some food products for focussing additional efforts. At the same time, Ghana and other countries need to implement already identified policies and measures to facilitate intra-ECOWAS trade on foods and other products, notably by abolishing the remaining NTBs.

As regards *ECOWAS CET and safeguards*, with 90 percent of imports into the ECOWAS area coming from outside the ECOWAS countries, the CET will be the effective tariff for Ghana.[4] Until the recent revision, the maximum CET was 20 percent (for the fourth band). This has been a source of considerable apprehension and debate as this is considered to be low, especially for sensitive farm products. Following many debates and negotiations, a new 5th CET band of 35 percent was adopted in June 2009. A higher rate, 50 percent, was also considered and supported by some countries and stakeholders but eventually discarded.

The issue debated was whether the CET is too low or too high or just about right. The four-band ECOWAS CET was adapted after the WAEMU CET that was operating for many years and was generally considered to be on the lower side. The compromise made was to retain these lower CETs but strengthen the safeguards (see below).

There are obviously different views on the level of the CET. It is natural for farm organizations to call for higher protection. In the ECOWAS CET negotiations, ROPPA, the regional farm organization, played an influential and significant role. On the 5th band, it had the following to say, "We remain convinced that any rate under 50 percent will mean the region will fail to achieve its strategic development objectives, especially those set out under ECOWAP" (ROPPA 2009). Nigeria was an important supporter of the 5th band. Ghana on the other hand had relatively low applied tariffs for many years and most likely did not have a strong view on this. As for other views, a recent OECD study (Debrew 2010) remarked that for the commodities covered in that study, tariffs seemed to be rather high for Ghana and Cameroon (15 to 20 percent), and much less for Mali (5 percent), and that reducing these tariffs could: i) further improve competitiveness of agricultural export commodities that compete for the same resources as used to produce protected imports; ii) enhance the efficiency of economy-wide resource allocation, and iii) reduce the food bill for consumers. Similar views can be found in the World Bank case study for Ghana (Brooks *et al.* 2009). The support for a more protective trade regime increased considerably during and after the 2008 global food crisis as voices converged for raising the level of food self-sufficiency.

It is widely held that safeguards (contingency protection measures) were given much more prominence by ECOWAS because regular CETs were on the lower side (notably prior to adding the 35 percent band). This is often linked to a decision of the Heads of State and Government concerning the "adoption of the external trade regime according to the specific circumstances of the agricultural sector". It seems that negotiators and experts linked this "specific circumstances" to the need for "differentiated protection" for the agricultural sector and came up with a scheme

[4] This also means that Ghana's WTO bound tariff of 99 percent is essentially redundant (perhaps limited to products excluded from ECOWAS CET, if such a provision is made).

of three trade remedy measures addressing three different concerns as follows (Stryker 2005 makes this point).[5]

- Degressive Protection Tax (DPT), aimed at safeguarding during restructuring phase (e.g. for rice, sugar etc with longer gestation periods for investment).
- Safeguard Tax on Imports (STI), aimed at import surges and depressed prices.
- ECOWAS Compensatory Levy (ECL), aimed at countervailing against "unfair" competition.

There is some confusion over the exact form of these safeguards (various parameters), but it is believed that some of these would be based on reference prices that take into account prices in the world markets and inside West Africa. As for the CET, ROPPA made proposals to make the safeguards more effective and biting, e.g. with lower thresholds that trigger the safeguards more often. Some proposals were also floated to make tariffs variable for sensitive products so that safeguards are triggered automatically.

2.4 EPA negotiations and interim EPA

Ghana, along with Cote d'Ivoire, signed interim EPAs with the EU in December 2007. The main reason given was to prevent disruptions to their exports to the EU after the trade provisions of the Cotonou Agreement expired at the end of that month.[6] These two countries have significant exports of horticultural products to the EU, as well as processed cocoa products, canned fish and processed food products, which will suffer without the preferential market access. These IEPAs are a temporary solution and will be replaced by full EPA for ECOWAS when completed.

There are some issues on the EPAs discussed for some years (there is a large literature on this – CTA 2008, CTA 2009 and EC 2009 are useful for the issues discussed here). One is the likely negative impact on domestic import-competing food sectors. But as regards the interim EPAs, this does not seem to be the case as many sensitive products have been excluded from tariff reduction commitment. These include chicken and other meats, tomatoes, onions, sugar, tobacco, wheat, several miscellaneous edible preparations, several preparations of cereals, flour, starch or milk, pastry cook products, edible fruit and nuts and frozen fish. Moreover, there is a long phase-in period in Ghana's IEPA: Ghana will need to eliminate duties on 80 percent of its imports from the EU over a period of 15 years, on top of a

[5] It is interesting to note that official documents call these measures "differential protection" for three different types of problems, rather than trade defence or safeguard measures.

[6] These two countries, and Nigeria, are the only three non-LDCs in ECOWAS that do not benefit from duty free quota free access to the EU market under the Everything but Arms (EBA) scheme. In the mean time, Nigeria, without an IEPA, will continue to trade with the EU under the GSP+ provisions.

standstill period of five years from January 2008 when it is not required to reduce any import duty.

Beyond the IEPAs, what will happen to these products in the full EPA is still being discussed. The list of sensitive products at the regional ECOWAS level for the EPA is still not resolved, with member countries having different lists that do not match. Even in the IEPA, there is a lack of an overlap in the exclusion lists of Ghana and Côte d'Ivoire.

How an EPA will impact on the ACP food sectors has been the subject of many debates and analyses. One reason for the sharp differences in views is the difficulty in quantifying the impact both because the exact form of the agreement is not known and for modelling reasons. One EU commissioned impact study (SIA 2004) has shown that if West African countries were forced to fully liberalize, food imports will increase markedly, e.g. by 16 percent for onions, 15 percent for potatoes, 16 percent for beef, and 18 percent for poultry. It also points to the possibility of even more frequent import surges.

Another issue was the EU request for a provision in the EPA that would grant the EU the same treatment that ECOWAS countries provide to "major trading partners" in other, subsequent FTAs that ECOWAS or its members may sign. ECOWAS members are uneasy with this provision because this will inhibit them from pursuing agreements with major developing countries (e.g. China, India, Brazil). ECOWAS wants to limit this MFN clause to only FTAs with developed countries, but the talks have not concluded.

Yet another contentious matter is apprehensions expressed over the nature of the interim EPA (and also full EPA) at high level African Union meetings. These reflect a long-standing concern that the EPAs might deviate from the common African positions on EPAs as articulated in those high-level meetings, most notably the fear that the EPAs might undermine African regional integration and food security goals.

3. Towards articulating appropriate trade policies – some cross-cutting issues

Not all topics that a trade or agricultural policy addresses are necessarily divisive. Ghana's GNTP04 for example covers seven thematic areas ranging from intellectual property rights to tariffs. Typically, as in the Doha Round and EPAs, topics such as trade facilitation and development measures are hardly controversial, but not measures like tariffs, safeguards and subsidies. Naturally, articulation of appropriate trade policy is more difficult for the latter, and so these deserve more analyses and debates within societies. In addition to the issues noted in Section 2, six topics of a more cross-cutting nature around the above issues are identified for brief discussions below.

1. Protection of importables and the issue of anti-export bias.
2. Responding to import surges and the challenge of import competition.
3. Food sovereignty, food security and trade policy.
4. Self-sufficiency in rice and other foods - at the national or regional level?
5. Food security at the national or household level? Where to focus government efforts on?
6. Updating Ghana National Trade Policy 2004.

Protection of importables and the issue of anti-export bias

In trade theory, based on Lerner's Symmetry, it is held that import protection is an implicit tax on export. This has raised a debate from time to time, including in Ghana. The issue is that where the main strategy is export-led growth, there should be no import protection at all so that anti-export bias is eliminated. This view is also echoed in the GNTP04 where it is said in sub-theme 2.1 (tariff measures) that, "Restrictions in the import regime can lead to investment in protected sectors rather than sectors for which Ghana can be competitive. This reduces export potential and results in higher prices of both imports and local products."

Subsequent policy positions in that section, however, show that policy makers are not pushing this viewpoint strongly. In policy prescription 1, an import regime based on tariff escalation is advocated (which is not consistent with the above point of view). Prescription 2 is also about protection, "to ensure a reasonable level of protection to all domestic producers on a sectoral basis", invoking infant industry argument. Prescription 3 is also about using tariff to counter unfair trade practices and to provide a reasonable level of protection. Finally, prescription 4 is also about protection, "Government will effectively use tariffs to encourage domestic production of strategic commodities."

The above shows that while the overall desire is for an all out push for exports by removing anti-export bias, tariff protection is not ruled out, including an escalated tariff structure, within "a reasonable level", for "infant industries" and for "strategic commodities". It is easy to find this dilemma – or some contradiction – in many national trade policies in developing countries. It is not about this versus that strategy in the extreme sense, but about selectively using protection for identified areas and in reasonable amounts. In real life, it is very difficult to precisely define these parameters, and hence the difficulties in fine-tuning tariff measures.

While positions are not as clearly articulated in the Ghana trade policy, one finds a strong support for the judicious use of tariff protection in ECOWAP, and subsequently in the ECOWAP/CAADP Compact (as discussed earlier). For the time being, until the ECOWAS CET and ECOWAP instruments become prominent in members' policies, this debate can not be avoided and will continue in various fora.

Responding to import surges and the challenge of import competition

This has been a phenomenon that has attracted widespread public attention for several years now in both Ghana and West Africa. A variant of this phenomenon is strong import trend lasting for several years and continually undermining the otherwise competitive import-competing sectors. The reasons for the surge could be unfair or fair trade practice by exporters. But in either case, the government has an obligation to respond to the problem.

Responding to import surges in a fair and effective manner is not easy. The FAO project on import surge attempted to address this issue. For country case studies, it followed an approach of investigation used for the WTO Agreement on Safeguards. In this method, a surge can be established based on trade data and injury indicators compiled through surveys. But it proved to be very difficult to reach the required conclusion that the injury was primarily due to the surge and not to other reasons (the so-called "non-attribution" test in the Safeguards investigation). This is because while the surge is taking place, there are also other domestic problems that contribute to the injury, and so a claim that the import caused the injury is always subject to counter arguments. It is for this reason that most if not all of the WTO Safeguards disputes have failed to make a clear case for a safeguard action.

Faced with a surge and injury that is not acceptable politically, governments typically respond by raising tariff, in part because other measures (providing relief through input subsidies or taking care of other problems like electricity) are not always feasible in the short-run due to budgetary limits and other constraints. The difficulty lies in determining an "appropriate" additional tariff – *in conjunction with other measures* - that will reduce import demand and restore competitiveness. Based on the insights from the FAO and other import surge studies, it was obvious that the government will need highly analytical eyes to follow import trends and surges and measure their effects on the industry, at the same time gathering intelligence on other factors that also cause negative effects. The judgement that comes from such a set up – an effective trade intelligence system – will reduce policy errors substantially, as well as lessen the divisive debates on the role and level of the remedial tariff.

In the past, Ghana has responded to this problem from time to time. In the 1990s and early 2000s, a temporary additional "special import tax" (SIT) of 20 percent was applied for about 7 percent of the tariff lines, mostly consumer products, including many foodstuffs. These were applied almost exclusively to goods that were already subject to a 20 percent tariff, effectively raising the total tariff to 40 percent. The SITs were abolished in 2002. As said in the last section, Ghana also took initiative to respond to the surge in chicken meat with higher tariff, although this was quickly reversed due to some external pressure, according to media reports.

More recently, import surge was also addressed by the 2010 budget where it was recognized (paras 70 and 71) that the government was aware of the threats of indiscriminate dumping of goods and services in the country, notably in food and agricultural sectors where the country has competitive advantage. It was also recognized then that the removal of import duties on some staple foods in response to the 2007-08 food crisis opened up the “flood gate for dumping” of foreign food items in the country. Accordingly, the government proposed restoring duties on imported rice, wheat, yellow maize and vegetable oil, as well as announcing some domestic support measures (e.g. fertilizer subsidies, credit).

In the GNTP04, there is some indication that Ghana would respond to such problems but this point is not made as strongly and explicitly. However, in the future, it will be the ECOWAS safeguards that will be effective for all Members. Furthermore, unlike the GNTP04, the ECOWAS safeguards are very explicit and strong. While safeguards provide temporary relief, governments need to take initiatives to put in place an effective trade surveillance system and prepare for responding to the crisis not just with safeguards but also with domestic subsidies on inputs/factors and Green Box-type development measures.

Food sovereignty, food security and trade policy

Ghana’s trade regime is recognized as being fairly liberal and there is a widespread support in Ghana for this policy position, including in policy documents. In the coming years, the ECOWAS and ECOWAP policies will be increasingly important for Ghana also. Agricultural policies of some ECOWAS members (e.g. Mali and Senegal), and the ECOWAP itself, present a somewhat different viewpoint, stressing on a concept like food sovereignty and supporting differentiated additional protection. Depending on how these concepts are understood and implemented, trade policy debates in the coming years could be divisive.

The first specific objective of ECOWAP is to guarantee food sovereignty. Its second objective speaks of raising food production to reduce import dependency, including at the regional level. Food sovereignty is generally understood as a framework that gives *primacy* to the right of the peoples and governments to define their own agricultural and food policies.[7] This concept was popularized by Via Campesina during the 1996 World Food Summit. At that time, one of the issues debated was the primacy of a country’s right to food and trade policies versus the WTO agricultural agreement (AoA). FAO official documents do not use this term. But the UN Special Rapporteur on Right to Food has used this concept and seemed to support this right (and policies) in the context of potential threats to right to food

[7] SWAC (2007) provides a comprehensive discussion of the concept of food sovereignty in the West Africa context.

from the AoA. The 2008 global food crisis has also pushed the positions of many towards food sovereignty. To what extent a concept like food sovereignty and the policy prescriptions associated with it will be influential in the coming years will depend on how this concept is understood. As a minimum, some consideration to this issue seems desirable, e.g. in the revision of the GNTP04.

Self-sufficiency in rice and other foods - at the national or regional level?

This has been a topic of debate in Ghana and the region, for food in general but notably for rice. There are two issues: i) the increased prominence given to food self-sufficiency; and ii) self-sufficiency at the national versus regional level?

As noted earlier, ECOWAP is highly geared towards self-sufficiency, not necessarily at 100 percent but a strong desire for high levels. The ECOWAP was conceived prior to 2008 and so that view point was articulated prior to the food crisis. It is based on the premise that higher level of food self-sufficiency is not only desirable for strategic and food security/poverty reasons but also feasible and was only undermined by the historical neglect of agriculture. The global food crisis prompted leaders to make political statements on food self-sufficiency, with rice receiving top attention. Media reports indicate that many governments in the region have initiated large-scale production programmes for rice and other foods, including regional rice value chains. Increased subsidies for irrigation and fertilizers in particular are part of the programme. The food crisis was also the main factor behind the ECOWAS Regional Initiative for Food Production with its three federating programmes (discussed in next chapter).

In a recent e-forum on rice (USAID 2009b), several commentators said that in an ideal world, self-sufficiency is not the best use of resources. However, and for rice in particular, the following factors would support significant investments to increase production: i) the risk to food security due to export restrictions by leading rice exporters; ii) the growing disparity between production and consumption in West Africa; iii) the declining rates of growth in rice production in Asia; and iv) the generally expected higher world rice prices in the coming years.

The second issue is the pursuit of national versus regional self-sufficiency. The vision of the ECOWAP is clear on this – the ECOWAS as a region will strive for highest possible food self-sufficiency on the basis of comparative advantage within the region and promote regional trade. If so, a policy of national self-sufficiency does not make much sense. It will be the CET on rice that will be relevant for any tariff protection on rice under the ECOWAP strategy. As debated in the above e-forum on rice, the preferred strategy would not be national self-sufficiency but a regional one together with increased intra-ECOWAS trade, which is consistent with the ECOWAP vision. This means that national agricultural policies need to deemphasize national self-sufficiency and facilitate regional trade. This will be a divisive issue and will take considerable time to be accepted by national stakeholders.

Food security at the national or household level? Where to focus the government efforts on?

This is also a debate that has been taking place for many years, not just in Ghana but in many other countries. The issue is about food security at the national versus household level. At stake here is the allocation of public efforts and investment, including subsidies, i.e. whether to concentrate on one versus the other.

This issue also came up prominently in the e-forum on rice in West Africa. The choice was articulated as a strategic decision to make involving different goals (reducing import bills versus improving household food security) and with both resource and food security implications. One strategic option is improving "national" food security aimed at urban areas and reducing import bills. The strategy is to focus on market-oriented farmers in irrigated, concentrated areas, at the same time developing commercial networks to urban areas. The second strategic option is to aim for improving household food security by focussing targeted efforts on small farmers in more remote areas, notably northern Ghana. This may not generate a surplus and reduce import bills, but will contribute to food security and poverty reduction.

The FASDP II seems to speak of both strategic options, at one place stating that the FASDEP II's salient feature is the targeting of the poor and risk-prone and risk-averse producers and elsewhere (under the first objective, universal food security) speaking of national food security, although, as written, the latter is not expressed clearly. This needs to be clarified in the future updating of the FASDP II because in the context of ECOWAP/regional food security, national food security for Ghana may not make much sense.

The Ghana case study on distortions (Brooks *et al.* 2009) also notes this dilemma on strategic choice. It says, "policies which improve competitiveness generally may not be pro-poor, either because they are geared towards the most viable farmers, or because they intensify competitive pressures, as well as the gap between modern commercial producers and traditional farmers. Thus, current policy debate, as in many other African countries, revolves around how to reconcile structural adjustment with poverty reduction".

Updating Ghana national trade policy 2004

As final words to this paper, it is first important to acknowledge and appreciate the process that Ghana followed in formulating the GNTP04. This was indeed a comprehensive and highly inclusive approach. There is a lot in these exercises that other developing countries can learn from. Ghana has now in place all major national policy documents, including the PRSP and agricultural and industrial policies.

Trade policy is an evolving process and so are the debates on issues. Since the formulation of the GNPT04, important developments have taken place at the regional level, with ECOWAS CET and ECOWAP, as well as the interim EPA. These policies will have marked implications for Ghana's future trade policies once the customs union process deepens. Other issues will also continue to be discussed and debated, e.g. the final list of the ECOWAS sensitive products, the form of the full EPA, the ECOWAS safeguards and exclusion list, and so on. In view of this, Ghana's current policy papers, especially the GNTP04, need to be updated on these developments.

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Ghana - Mainstreaming trade policy

Ramesh Sharma

1. Introduction

Trade mainstreaming is understood in this paper as a process of articulating trade policy and support measures in such a way that these are supportive of the core national development goals such as growth and poverty reduction. This involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals and avoiding contradictions.

In order to analyse the extent to which trade policies are mainstreamed, a two-step approach is followed. First, relevant national policy frameworks are read carefully, starting with the PRSP, with a view to identifying where and how trade and related policy issues are mentioned and articulated. This is done in Section 2, which is substantive in view of the number of policy frameworks reviewed. Second, for selected policy issues of a more divisive nature, the positions taken, or not taken, on these issues in various policy frameworks are examined with a view to identifying consistency/synergy, on the one hand, and gaps or contradictions, on the other (Section 3). This section also discusses what may be done to improve the write-up of the PRSP and other policy frameworks.

The background works leading to this and other papers under the FAO trade policy articulation project were undertaken by a team of analysts in Ghana on the basis of literature review, data analysis and stakeholder consultations. About 10 national experts contributed to the background work and papers; the project itself was coordinated by the Institute of Economic Affairs (IEA) based in Accra. Many brainstorming meetings were held with government officers, non-state stakeholders and civil society for their views on policies. The background study that contributed to this paper is Osei-Asare (2010). The other three background studies under the IEA/FAO project were also useful for this chapter (Mensah-Bonsu and Addo 2010, Egyir *et al.* 2010 and Asuming-Brempong 2010).

2. Trade and agriculture in national policy frameworks

With a view to examining where and how trade and related policy issues in the context of agriculture and food security are mentioned and articulated, the following policy documents are reviewed.

- The PRSP - Growth and Poverty Reduction Strategy (GPRS II).
- Ghana National Trade Policy 2004.
- Agricultural Policy – the FASDEP II.
- ECOWAS Trade Policy and ECOWAP Agricultural Policy.

Note that "trade" is very broad in scope, e.g. the many areas that the WTO Agreements cover. Not all of these are divisive in nature, e.g. while tariffs and subsidies are divisive issues, development measures like irrigation, research and SPS standards are not. The focus of this paper is on the more divisive trade and pricing policy issues.

2.1 The PRSP

Ghana's current PRSP is *Growth and Poverty Reduction Strategy* (GPRS II). In introducing this, it was said that the GPRS II intends to shift the strategic focus towards growth from the 2003 GPRS I, that reflected a policy framework directed primarily towards the attainment of the anti-poverty objectives of the UN MDGs. The goal of the new strategic focus is to accelerate economic growth so that Ghana can achieve middle-income status within a measurable planning period. The inclusion of the word "growth" in the title of the programme from the previous, *Ghana Poverty Reduction Strategy* (GPRS I), is said to be deliberate in order to stress the change in focus and content.

The GPRS II was adopted in July 2006 and is organized around three pillars (Figure 1). Economic growth and productive sectors are mostly covered under Pillar 1. Economic growth and structural transformation is to be propelled by the agricultural sector. The emphasis on agriculture-led growth strategy is predicated on a number of factors such as the importance of agriculture for poverty reduction, food security, raw materials for industry, and possibilities of generating widespread backward and forward linkages in the economy through agricultural growth. Besides the emphasis placed on agriculture, the GPRS II also covers some other strategic sectors that have long-term growth potentials, notably tourism, ICT, light industrialization based on textiles, garments and value addition to metallic and non-metallic minerals.

FIGURE 1:
The three pillars of GPRS II

PILLAR 1	PILLAR 2	PILLAR 3
Private Sector Competitiveness	Human Resource Development	Good Governance and Civic Responsibility
Private Sector Development	Education	Political Governance
Agriculture-led Growth	Health (incl. HIV)	Economic Governance
Support Services	Population Management	Corporate Governance
Additional Sectors to Support Growth	Water and Sanitation	Evidence-based Decision-making
Employment/Safety Net	Urban Development	
	Other Social Policy	

The total cost of the GPRS II is estimated at 73 374 trillion cedis (USD 8.063 billion) – about USD 2 billion per year. Of this, 35 percent is for Pillar 1, 55 percent for Pillar 2 and 10 percent for Pillar 3. Nearly 73 percent of the resource associated with the first pillar is expected to flow into programmes and projects intended to raise agricultural productivity, develop small-scale agro-industries, improve the transport infrastructure, facilitate both domestic and international trade, and develop the capacity and competency of domestic industries.

The GPRS II addresses trade and agriculture strategies and policies in a fairly detailed manner in several places (Box 1 - bolded sub-sections). The rest of this sub-section presents the treatment of these two topics, with some commentary as needed.

Box 1:
Trade and agriculture coverage in GPRS II

Chapter 3 - Priorities for Private Sector Competitiveness

3.1 Private Sector Development
3.1.1 Improve Ghana's access to global and regional markets

3.2 Improving the Business and Investment Environment for Agriculture-Led Growth
3.2.1 Modernized Agriculture
3.2.2 Promoting Trade and Industry

Chapter 5 - Good Governance and Civic Responsibility.

5.6 Economic Governance
5.6.4 International Trade Management

Note: Bolded sections indicate places where trade and agricultural topics are discussed.

Trade coverage in the GPRS II

Trade is first addressed in Chapter 3 (two short paragraphs) under the heading *Improving Ghana's access to global and regional markets*.[1] Among the 2-3 strategies or measures listed are: fully implementing the 2004 Ghana National Trade Policy (GNTP 2004 in short); upgrading institutions that provide technical standards (SPS/TBT-related); and implementing sector-specific measures to support strategic exports, focusing initially on the President's Special Initiatives (PSI).

Trade is explicitly addressed next in section 3.2.2, *Promoting Trade and Industry*. This section follows immediately that on agriculture and is introduced thus: "In line with the long term vision of developing an agro-based industrial economy, the interventions in agriculture will be complemented with appropriate interventions

[1] Bulk of the texts in the chapters and relevant sections of Appendix II, Policy Matrix (in tabular form) are similar, although not identical. Policies and strategies are easier to read in Appendix II and also provide other information as issues and responsible agencies. The write-up in this sub-section draws from both sources, but relatively more from the appendix tables.

in the Trade and Industry sector". The overall objective is to create incentives in trade-related areas for enhanced private sector participation in the agricultural development agenda. This section is short, about 700 words, but additional information is provided in the appendix Policy Matrix (summarized in Table 1).[2]

The third place where trade is treated explicitly is section 5.6.4 in the sub-section *International trade management* (under *Economic Governance* in Pillar 3 of GPRS II). The text in section 5.6.4 is very short, only 176 words in two paras. Table 2 copies the relevant texts on policies and strategies from the appendix tables.

One commentary to make here is on the view above that certain products are to be given special treatment as being strategic for export (or for other reasons). This view is also found in some other parts of the GPRS II as well as in trade and agricultural policies (below). As will be addressed again in Section 3, it is however not clear from these policy documents what exactly are these products (other than the ones in the President's initiative), nor how these are, or will be, identified, and what special treatment they will receive.

Agriculture coverage in the GPRS II

In the GPRS II, agriculture holds a central position among all productive sectors. In introducing Pillar 1, the vision is stated thus: "The objective of GPRS II is said to be to achieve accelerated growth through modernized agriculture, led by a vibrant and competitive private sector. The challenge to the attainment of this objective is how to systematically address the structural constraints at the policy and institutional levels that hamper private- sector competitiveness in agriculture in the medium term and in the industrial and other sectors over the long term". In other words, the GPRS II is an agriculture-led growth strategy. Achievement of the overall goal of GPRS II requires agriculture to continue to grow at the rate of 6 percent per annum over the GPRS period.

GPRS II devotes about 10 pages for agriculture – 4 pages in section 2.3.3 (Agriculture as Basis for Economic Growth and Structural Transformation) in Chapter 2 called *Macroeconomic Context and Strategic Direction*. The next, five pages are devoted to agriculture in section 3.2.1 (Modernized Agriculture) under Section 3.2 *Improving the Business and Investment Environment for Agriculture-Led Growth* in Chapter 3 (Priorities for Private Sector Competitiveness). Relative to many other current PRSPs, this is a lot of space for agriculture.

[2] In the text part (section 3.2.2), six policy/strategy areas are mentioned while in the appendix table there are only five, with number 4 (regulatory framework) fully missing in the text, while two areas - agro-processing and agricultural marketing - are covered in the text under trade section but not in appendix. In Table 1, five areas are from the appendix.

TABLE 1:
Policies and strategies under *Promoting Trade and Industrial Development*

Policy	Strategies
1. Ensure proper integration of production sectors into domestic market	1. Identify/promote opportunities for economically beneficial linkages along production and supply chains in new and existing productive sectors 2. Credit supply centres and on-lending to small traders/farmers
2. Enhance access to export markets	Seven strategies (2.1 to 2.7). Briefly, provide or promote or encourage or facilitate as follows: • Concessionary export finance • Competition in airport cargo handling • Private sector investment in cold chain facilities • Private sector investment in container terminals • Effectively participate in negotiations and global rule setting • Create fair, transparent and equitable trade regime • Facilitate cross-border trade
3. Increase industrial output and improve competitiveness of domestic industrial products	11 strategies (3.1 to 3.11). Briefly, mobilize, enhance, promote, facilitate etc the following: • domestic and outside resources for production of value-added products; enhance accessibility to infrastructures; efficient management practices in production; use of local products and services in government procurement; promote made in Ghana products at home and outside; ensure TBT removals; assist exporters to comply with product standards; develop commercially viable export and domestic market oriented enterprises in the rural areas; promote craft industry.
4. Strengthen the legal, regulatory and institutional framework to support industrial production and trade	Five strategies - enforce competition rules; efficiency of business registration and licensing; measures to remove full ECOWAS integration obstacles; rules to protect IPRs; environmentally friendly consumption.
5. Ensure the health, safety and economic interest of consumers	Five strategies - enforce legislation to prevent sale of unsafe and poor quality goods; regulatory framework for protection of consumers' rights; national consumer awareness programmes; formation of consumer association; representation of consumers on relevant national bodies.

In the section on *Modernized agriculture* (under the heading *Agriculture-led Growth*), there are a total of 41 strategies (actually programmes, policies and measures) listed against just three policy measures, which are:

1. Ensure sustainable increase in agricultural productivity and output to support industry and provide stable income for farmers.
2. Ensure food security for all and increase the access of the poor to adequate food and nutrition.
3. Ensure the development and strengthening of the requisite institutional capacity to support agriculture productivity.

TABLE 2:
Policy and strategies on *International Trade Management*

Policy	Strategies
1. Improve import competitiveness	1.1 Maintain competitive real exchange rate 1.2 Improve the import/export regime 1.3 Minimize the incidence of dumping
2. Diversify and increase export base	2.1 Promote new areas of competitive advantage 2.2 Take full advantage of preferential market access (AGOA, EU-ACP) 2.3 Engage fully in multilateral trade negotiations
3. Institute mechanisms to manage external shocks	3.1 Maintain stable reserves
4. Accelerate economic integration with other regional and/or subregional bodies	4.1 Implement the WAMZ programme 4.2 Work towards establishing a common customs union 4.3 Ensure that National Trade Policy reflects ECOWAS protocols 4.4 Strengthen industry-trade policies links

Source: Appendix 1IC: Good Governance and Civic Responsibility, in Policy Matrix, Appendix II of GPRS II.

Space does not permit discussing the strategies. Among the 41 strategies listed, most are well known development measures such as irrigation, R&D, pest control, scientific land use, and so on. Therefore, what follows are notes or commentaries on some of these measures that are more of a trade/pricing nature.

Against policy (1) above, there are some measures listed under a sub-section called *Selected Crop Development*. As with the comment on strategic products for exports above in the trade part, this reference to selected crops could have an interesting point to pursue but then nothing is said on what these products are. Three products are mentioned in one place (pineapple, cashew and oil palm) but only in the context of biotechnology promotion. Likewise, horticulture development is said in a general manner ("develop"). It is not said here that these "selected" products are those under the President's initiative.

In some other places, strategies are stated in a very general manner. For example, in view of "low level of dairy production", the stated strategy is "promote dairy production". "Promote the development of horticulture" and "develop and exploit ground water" are other examples.

Consistent with the pivotal role given to the private sector and competitiveness, reducing and coping with risk and uncertainties – market volatility – receives due attention. The general tune is to develop market-based risk management instruments, but this does not come out clearly all the time. For example, it is said that *strenuous* government intervention (italic added) is the only way to break the cycle and attenuate the risks on both sides (farmers and service providers) so that the private sector moves in the present development paradigm. But what is this "strenuous" intervention is not clarified. In bullet 3 in page 25 of the text, ensuring "price stability" is stressed, but no indication is given of the instruments that will be used for this. Trade policy is one of the means for stabilizing prices (both of importables and exportables), but it is not clear if and how trade policy will be used.

One common weakness throughout is the way the strategies are written in that in many places there are words like support, promote, facilitate and so on in the context of the adoption by farmers and firms of new technologies and packages (like tractor services), but no indication is given of the types of facilities (e.g. subsidized credits, tax breaks) that will be provided. It is said that agriculture must diversify (from cocoa to other crops), but nothing concrete is said about how this will occur (and why this did not happen in the past?). Without that, it does not answer the question why things are going to be different this time. Presumably, these important specifics are left to annual budgets.

Given the importance of agro-industry in this development strategy, it would have been useful to have some concrete guidance on how to ensure the growth of agro-industries on the one hand, and to enable existing agro-industries to sustain on the other. On the latter, for example, there have been many cases of import surges in Ghana undermining the otherwise functioning agro-industries (poultry, dairy products, tomato paste and so on).[3] What is to be done under such a stress? And what is the policy for fostering new industries? Will there be any role for trade/ pricing policy here (e.g. on infant industry ground)?

2.2 Ghana national trade policy 2004

The work programme for the GNTP04 was fairly elaborate and included, in phases, a comprehensive review of trade and development literature that produced a Ghana Trade Policy Background Paper, essentially an "Options" paper, and extensive stakeholder consultations. These led to the formulation of the policy itself, and based on that an implementation plan – the 2005 Trade Sector Support Programme (TSSP). The Options paper provided the Ministry with options for policy and a basis for the extensive stakeholder consultations that followed.

The fundamental goal of the GNTP04 is to contribute to the realization of the government's development objectives through two parallel strategies: a) an export-led industrialization strategy; and b) a domestic market-led industrialization strategy based on import competition. The rationale for the first strategy is that Ghana's

[3] The previous chapter discussed import surges as one of the trade policy issues for Ghana.

domestic market is relatively small and so economic growth must necessarily come through increased export. This will depend primarily on adding value to Ghana's national resources and enhancing the competitiveness of local production which in turn can only be achieved through industrialization. This is the rationale for the second, parallel strategy.

The GNTP04 is detailed through seven thematic areas: 1) multilateral trade; 2) creating a fair and transparent import-export regime; 3) facilitating trade; 4) enhancing production capacity for domestic and export markets; 5) domestic trade and distribution; 6) consumer protection and fair trade; and 7) protection of intellectual property rights. Three other thematic areas were subsequently added while formulating the TSSP, making the total ten: 8) product standards; 9) competition and government procurement; and 10) export trade support services.

Each thematic area has 4-5 sub-topics, with each sub-topic presented under three headings: i) policy context; ii) policy objectives; and iii) policy prescriptions. This is helpful because the "context" helps better understand the "policy process".

For space reason, the following discussion is selective and focuses on some issues/topics that are more of a policy/pricing nature and so relevant for this paper. For example, several of the above areas focus on development measures that are relatively less divisive in policy discussions, e.g. upgrading of technical standards (SPS/TBT measures), trade facilitation, consumer protection, intellectual property rights, competition policy and so on. A better place to consider these topics in some depth is trade support measures or Aid for Trade (next chapter).

Thematic area 1, *multilateral trade*, is about policies on trade negotiations and agreements (namely WTO, ECOWAS, EPA, Africa-wide integration, bilateral agreements and preferential market access like GSP, AGOA). The primary stated goal is to expand export opportunities and market access, as well as to contribute to reducing global trade distortions.

While export is the main focus, this thematic area also provides some guidance on import policy, a relatively divisive issue, especially given the strong emphasis of the GNTP04 on export orientation. Thus, it is said that Ghana will, through negotiations, seek to retain sufficient flexibility in its own tariffs to allow development of competitive local industries, and that it will ensure to retain the right to support its producers. Also mentioned is the importance of retaining adequate "policy flexibility".

Thematic area 2 outlines policies on *traditional trade instruments*. A fundamental point made while addressing tariff measures for both imports and exports is the following: "Restrictions in the import regime can lead to investment in "protected" sectors rather than sectors for which Ghana can be competitive. This reduces export potential and results in higher prices of both imports and local products." This view is consistent with the overarching theme of the GNTP04 which is export-orientation.[4]

But, reading further, the GNTP04 does not seem to push this line too far in one direction as it also speaks of the importance of tariffs, safeguards, modest protections and so on, as said above. This also recurs in thematic area 2. It is said there that the government will ensure a reasonable level of protection to all domestic producers on a sectoral basis, depending on their ability to compete with imports while encouraging improvement in competitiveness and development of export potential over time. An escalated tariff structure is also endorsed, consistent with the ECOWAS CET. Strictly speaking, such a structure is not consistent with export-orientation. Similar views are made in subsequent paras – that tariffs will be effectively used to encourage domestic production of strategic commodities.

Taken together, these views could be interpreted as either presenting a balanced view on trade policies or as being inconsistent.

Non-tariff barriers (NTBs) to trade, including quotas, are condemned but not outrightly rejected. It is said that such instruments should be used very carefully in difficult situations when other instruments fail and when these are required for meeting some societal goals. Lastly, the policy supports the provision of incentives for exports, as well as some level of export taxation for generating revenue for covering service costs or for commodity development.

Thematic area 4 - *production capacity* - addresses supply capacity for both export-led and domestic market-led industrialization. One notable strategy is identification and targeting of specific sectors for development on the basis of export potential, domestic market requirements, increased employment and income for disadvantaged groups. A number of well-known support measures are also listed. This theme also calls for supports to strategic productive sectors, yet to be identified based on "clear and transparent criteria". Sub-theme 4.7 (*sectoral development - agro-processing*) alludes to the need for responding to import surges and negative effects on agro-industry.

Some pertinent policy statements are also made in thematic area 5 - *domestic trade and distribution*. It is said that while the basic policy will be maintaining a free market system, with minimum government intervention, the government will, as a last resort, selectively intervene in farm gate prices of strategic products to stabilize

[4] This is a very important statement of trade policy because it essentially endorses the view that import restrictions of any form or any level are to be avoided as these contribute to anti-export bias. In trade theory, this view is attributed to the Lerner Symmetry.

prices for vulnerable consumers and producers. Note that "strategic products" are again mentioned here but without further elaboration.

In summary, the GNTP04 is both comprehensive in the coverage of issues and trade policy areas, as well as balanced in terms of the provisions for export, domestic markets and import competition. Overall, the focus is on a liberal trade regime and competitive markets but with safeguards and support measures. The needs of the agricultural sector, especially agro-industry, seem to have been fairly well addressed. In this sense, the GNTP04 is consistent with the basic thrust of the GPRS II. The two areas in particular where the GNTP04 could be improved in the next revision would be to reflect the provisions of the ECOWAS trade and agricultural policies (ECOWAP), and clarify what exactly are special and strategic products referred to in several places.

2.3 Agricultural Policy – the FASDEP II [5]

The FASDEP II followed upon previous policies – the 2002 FASDP I and the 1996 Accelerated Agricultural Growth and Development Strategy. As with the GNTP04, the formulation of the FASDEP II also underwent an extensive process of stakeholder consultations.

The FASDEP II reviews past approaches to agricultural development and notes that these efforts were not effective for a variety of reasons, including under-funding of the sector, limitations of public-led service delivery and multiple, stand-alone and uncoordinated projects. It refers to the GPRS II's key pillar of "private sector competitiveness" and accordingly calls for a strategic shift to supporting agriculture. The main building blocks of the new strategy will be commercialization of agriculture, linking farmers to markets through value chains, value addition at every stage, private sector-led provision of inputs and services, and food security and social protection. There is also a strong recognition of the food sector, in view of its large linkages and multipliers throughout the rural economy and beyond.

The following are the eight policy objectives for the FASDEP II within which are articulated the strategies and policies. Brief commentaries are made below on selected policies that are of a more trade/pricing nature, in line with the above discussion on the GPRS II and GNTP04.[6]

[5] The introduction and commentary is based on FASDEP II first draft, second revision, May 2007.

[6] Being an agriculture policy, the FASDEP obviously devotes a great deal of attention to development measures like irrigation, pest control, livestock diseases, research and extension, and so on. The selective discussion here on policy issues in no way undermines the immense importance of these other programmes.

1. Universal (national) food security and emergency preparedness.
2. Improved growth in incomes.
3. Stabilization of farm incomes and food supplies.
4. Stabilization of farm incomes and reduction of income risk.
5. Sustainable management of land and environment.
6. Increased competitiveness and enhanced integration into domestic and international markets.
7. Application of science and technology in food and agriculture.
8. Effective institutional coordination

The first objective begins with a definition of *food security*, which however is not well articulated.[7] For example, it is not clear to what extent attaining food security at the national level is stressed, versus that at the household level. In the new ECOWAS customs union context, with open borders and strengthened regional trade links, the meaning of food security needs to be rearticulated. This is important because it has policy implications.

It is further said there that the broad strategy for the attainment of food security is to focus at the national and agro-ecological levels on the development of at most four staple crops (maize, rice, yam and cassava). Districts will focus on at most two of these crops, the choice based on comparative advantage, importance of the crops to people in the zone and availability of markets. These selected commodities will receive support to enhance productivity along the whole value chain. This section also mentions stabilization of price through buffer stocks and other measures, but nothing else is said (e.g. how). This also comes up in another strategy (below).

The next policy objective is increased *growth in incomes*. The focus of interventions will be to provide opportunities for diversification into cash crops and livestock, and for value addition on "all" commodities. This objective targets "all" categories of farmers as a principle of equity. But then under the strategy section, it is said that there shall be a focus on tree crops (mango, cashew, oil palm and citrus), small ruminants (sheep and goats), and poultry and vegetables on the basis of comparative and competitive advantage of agro-ecological zones and availability of markets. It is also said that indigenous staple crops and livestock species produced by the poor (sorghum, millet, groundnut, sheanut, goat, fowls and guinea fowls) can be commercialized through linkages to industry.

[7] The following definition in FASDEP II is not the well-known standard World Food Summit definition of food security: "MoFA defines food security as good quality nutritious food, hygienically packaged and attractively presented, available in sufficient quantities all year round and located at the appropriate places at affordable prices. Although the objective of attaining food security is national, it is the poor that are most vulnerable to food insecurity".

One comment here – what is the value-added of designating some commodities for food security and others for higher incomes, i.e. why is that classification needed if policies were to remain undifferentiated. There are no indications of product-specific supports and subsidies to the identified products.

The third objective is *stabilization of farm incomes and food supplies*, and is expressed thus: "The objective of stabilising farm incomes and food supplies is linked to that of food security, and the commodities targeted for food security will be the source of procurement for storage". One notable strategy listed is establishing strategic stocks to stabilize farm prices as well as improving responsiveness to supply shortfalls. As further discussion is not provided, it is difficult to comment on this, but maintaining "strategic stocks to stabilize farm prices" is not a trivial intervention. For example, India has such a policy, and deploys multiple policy instruments, including trade instruments, to make that work. Given the overall policy paradigm pictured in the GPRS II and GNTP04, as well as elsewhere in the FASDEP II, i.e. one of intense market orientation and minimum intervention, this policy stand seems to be somewhat odd. Also, one could question how such a policy will work for a country that is part of a customs union.

Some other interesting points may be noted from the rest of the policy details in FASDEP II. The FSADEP II rejects the past model of public sector-led provision of inputs and services in favour of the private sector-led provision, with the government facilitating the process. In taking this line, it however recognizes, based on past experiences, that left to itself the private sector will not come forth easily in providing these services, and so the government needs to do more to bring them on board. Although not specified explicitly, these would be incentives of one sort or other.

The FASDEP II also takes note of some of the supports expected for the agricultural sector from the trade side. Thus, it gives due importance to some of the policy positions in the GNTP04, notably the selective and minimal use of export taxation, and rationally using tariffs to counteract unfair trade practices and encourage domestic production of strategic commodities. Related points are also made in the section on *coordination function of the MoFA*. Thus it is said that the MoFA will, as part of its coordination and advocacy role, identify agricultural commodities affected by unfair trade practices and lobby for protection of strategic commodities identified in the policy.

And lastly, and a point related to the topic of mainstreaming, the MoFA promises to play a pro-active inter-ministerial coordinating role, recognizing the importance of the contributions from other ministries (e.g. road, financial sector, local government, trade etc). In this role, it will regularly assess the consistency of the policies with agriculture sector objectives and strategies, and analyse the impact of policies on the agricultural sector. This will include the analysis of the impact of macro policies on the competitiveness of key agricultural exports.

2.4 ECOWAS trade policy and ECOWAP agricultural policy

The ECOWAS trade policy, the ECOWAP and more recently the ECOWAP/CAADP compact are mostly developments that took place after the formulation of the Ghana policy frameworks reviewed above. For this reason, it was simply not possible to filter in the implications of the regional policies in the national frameworks. Geared towards a customs union, these regional frameworks will be increasingly influential on national policies and programmes. Both these topics were reviewed in the previous chapter on trade policy and so what follows summarizes the main points relevant to this paper.

First, the ECOWAS trade policy. With 90 percent of the imports into the ECOWAS coming from outside ECOWAS countries, the CET will be the effective tariff for Ghana, essentially rending irrelevant Ghana's WTO bound tariff of 99 percent. The CET was adapted from the WAEMU CET following the January 2006 decision of the ECOWAS Heads of State to implement a similar system of four tariff bands of 0 percent, 5 percent, 10 percent and 20 percent. A fifth band of 35 percent tariff has been added in 2009. Then there are trade remedy measures or safeguards. It is said that these were articulated around a decision of the Heads of State and Government concerning the "adoption of the external trade regime according to the specific circumstances of the agricultural sector". This specific circumstances led to "differentiated protection" for the agricultural sector and eventually to three types of safeguards addressing three different concerns. These are: Degressive Protection Tax (DPT) meant for a limited duration during which to restructure and improve the competitiveness of the production sectors; Safeguard Tax on Imports (STI), similar in design to the WTO SSM and meant for responding to import surges and depressed prices; and ECOWAS Compensatory Levy (ECL), similar to the WTO countervailing duty and meant for offsetting "unfair" competition.

Second, the ECOWAP agricultural policy. The ECOWAP is considered as the overall framework for guiding national agricultural policies in member countries. Its vision is of a modern and sustainable agriculture, based on the effectiveness and efficiency of family farms and the promotion of agricultural enterprises through the involvement of the private sector. Specific objectives include guaranteeing food security for all through initiatives to attain food sovereignty, reducing food import dependency by giving priority to food production and processing, and integration of producers into markets, and of markets across countries in the region. ECOWAP is somewhat unique in that it explicitly uses the concept "food sovereignty". Associated with this are desires for high levels, if not full, of food self-sufficiency, border protection if needed, and strong regional integration.

Third, the recent ECOWAP/CAADP Regional Compact. Since the adoption of the ECOWAP, the ECOWAS Commission and the NEPAD Secretariat have worked together to elaborate and adopt an action plan for joint implementation of ECOWAP and CAADP so that there is a single, unified framework for planning and intervention in the agricultural sector. As preparatory works for the compact were in progress, the 2008 food crisis prompted some re-formulations of the programme. In June 2008, the Heads of State adopted a *Regional Initiative for Food Production and the Fight Against Hunger* which revised the intervention priorities for the implementation of the ECOWAP/CAADP Compact. Three mobilizing and federating programmes were formulated: i) promotion of strategic food value chains for food sovereignty; ii) promotion of an overall environment favourable to regional agricultural development; and iii) reduction of vulnerability to food crises and promotion of stable and sustainable access to food.

Under the first mobilizing programme, the aim is to support all regional initiatives and strategies that promote food production and food value chains. A number of food products "that contribute to food sovereignty" will be promoted. These are millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products, with priority in phase 1 for rice, maize, cassava and livestock-meat and related products, and the rest in phase 2. The products are identified on the basis of: i) high production potential; ii) evolving dietary habits; and iii) large import bills. The second mobilizing programme has components that address regional integration and border policies, e.g. investing in trade infrastructures to boost regional trade in food products, and adaptation and implementation of new regional trade provisions.

3. Conclusions

As commentaries were also made above in presenting the main policy frameworks, this section is brief, and addresses four points. The first is the main concluding remark on mainstreaming, or consistency of positions across the frameworks. The next two indicate some gaps and ambiguities in the texts. The fourth and last point presents a view on trade content in the GPRS II from an ODI study.

On the whole, there is a fairly high degree of consistency in positions across Ghana's policy frameworks

The main strategic thrusts and guidelines in the GPRS II – the apex policy framework – may be noted as follows:

- Agriculture-led economic growth.
- Structural transformation of the approach to agricultural development (commercialization, efficient and competitive domestic trade, private-sector in services provision and at all points in the value chain).
- Promotion of special/strategic products/sub-sectors and special treatments.
- Balanced treatment of export products and foods, including food security.
- Concerns over risk and vulnerability, and market and price stability.

The GNTP04, although formulated prior to the GPRS II, is largely consistent with the above strategies and policies. Unlike the sole focus accorded to export in trade policy of many developing countries, the GNTP04 presents a balanced approach, with its two, parallel strategies of "export-led growth" and "domestic market-led industrialization based on import competition". Consistent with this, a section of the GNTP04 is devoted to addressing domestic trade and distribution issues, supporting similar approaches and interventions in the GPRS II. Furthermore, the GNTP04 is also balanced in that it considers retaining "policy space" in negotiating trade agreements, and provides appropriate instruments for selective protection, promotion of strategic products and sub-sectors, and safeguards against market disruption. Thus the need of the agro-industry has been addressed, consistent with the support to this sub-sector as expressed in the GPRS II.

The FASDEP II, the latest of the three policy frameworks, is also consistent with the above strategies and positions. It is naturally focussed on agriculture growth and development programmes, but unlike the traditional agriculture plans found in many countries, topics such as competition in domestic markets, private-sector provision of services and value chain links are given due prominence. The supports expected by the FASDEP II for agriculture from the trade side are also found to have been met by the range of instruments provisioned in the GNTP04.

Thus, on the whole, there is a fairly high degree of consistency on positions and synergy across Ghana's policy frameworks. The one area where some follow-up and fine-tuning is needed is revisiting the above frameworks to ensure that these are also consistent with the new regional policy frameworks (ECOWAS trade policy, ECOWAP, and ECOWAP/CAADP Compact). This was commented on at the end of the previous section.

Targeting "strategic" products/sub-sectors for special treatment

As is the case for many other developing countries, Ghana's policy frameworks also have strategies calling for promoting special or strategic products.[8] If carried forward and implemented seriously, such a strategy has implications for the allocation of public and private resources as well as for changing the structure of incentives facing different products and sub-sectors, with economic implications as discussed in the World Bank studies on agricultural distortions (e.g. Brooks *et al.* 2009 for Ghana). So it is important that this issue receives scrutiny.

[8] There are many examples of such an approach in other fora also, e.g. negotiations for designating selected products as special and sensitive in the Doha Round. Another example would be the targeting of about a dozen food products for increased intra-African trade by the 2006 Abuja Summit on Food Security.

In the GPRS II, this is found in 3-4 places. One is the special treatment to be accorded to "strategic exports", initially focussing on products in the President's initiatives (in agriculture, cotton, oil palm and cassava starch). In trade section, it is said that new productive sectors will be identified and developed, including promoting new areas of competitive advantages. In the agricultural section of the GPRS II, there is a strategy for selected crop development, but nothing specific is said on what these are. Likewise, references to special products are found in the GNTP04. In its thematic area 4 (production capacity), one strategy is the identification and targeting of specific sectors for development. This theme also calls for supports to strategic productive sectors to be identified based on "clear and transparent criteria". Further in thematic area 5 (domestic trade) it is said that the government will, as a last resort, selectively intervene in farm gate prices of strategic products to stabilize prices for vulnerable consumers and producers. Again, no specific products are mentioned.

In FASDEP II, selecting products for special treatment is found in food security and farm incomes strategies. The former mentions at most four staple crops (maize, rice, yam and cassava) and the latter calls for diversification into cash crops and livestock, with a focus on some tree crops (mango, cashew, oil palm and citrus), small ruminants (sheep and goats), and poultry, vegetables, and indigenous staples and livestock species (sorghum, millet, groundnut, sheanut, goat, fowls and guinea fowls). Lastly, the recent ECOWAP/CAADP Compact has a development programme for strategic food value chains. The products identified are millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products, with priority in phase 1 for rice, maize, cassava and livestock-meat and related products, and the rest in phase 2.

Two comments on the strategies. First, it is obvious that the list of such products is rather long, covering almost all cereals, prominent foods such as poultry and several cash crops. In some cases, the strategies merely mention the need for identifying such products and sub-sectors based on some criteria, which are not specified. A second comment would be lack of clarity on the special treatment for these products, both on policy (e.g. higher tariff protection, no export tax, lower VAT, subsidized credit) and investment (e.g. in various points of the value chain). The FASDEP II has detailed programmes for many of these agricultural products but without information on investment (budget), the issue of special treatment and prioritization is not clear. But then resources are limited. Clarifying these matters would also help immensely the operationalization of the Aid for Trade programme.

Clarifying key terminologies helps improve mainstreaming

This is also an important issue for mainstreaming. As the goal is to ensure synergy and consistency across national policy frameworks, it is essential that terminologies used in various places are clear and consistent. Without that, there is a risk of the subsidiary policy documents using the terms in different contexts, and/ or stakeholders interpreting them differently and even influencing policies. For example, it has been written that food security could be used as one criterion to justify export controls. Now if food security is not defined precisely, traders might be asking for (or against) export control for some product for quick profits. This point may be illustrated with some examples from Ghana's policy frameworks; similar examples can be found for many other countries.

Food security is one concept that is understood variously. The World Food Summit definition with its three dimensions is essentially about household access to food, through the combination of production and import. For many, this is no more than household food security or an issue of economic access, and having nothing to do with a national self-sufficiency rate. Others also stress on the latter. The recent global food crisis has shifted support towards increased self-sufficiency. In Ghana's FASDEP II, food security is defined somewhat differently, and seems to be closer to availability at the national and regional levels. In the ECOWAS customs union context, such a definition may not be appropriate. Likewise, the use of the term "food sovereignty" in ECOWAP is another example (previous chapter). Highly divisive debates have taken place in some global fora on discussions on trade and food security when linked to food sovereignty. Although Ghana's own policy documents do not use this term, ECOWAP policies can not be ignored.

The following is a sample of examples of terms found in policy documents that often lack clarity (emphasis added): "protecting *sensitive* industries", "ensure a *reasonable* level of protection", "protection to *all* domestic producers on a *sectoral basis*", "*special*, *sensitive* and *strategic* commodities", "NTBs may be resorted to on the basis of *social welfare*", "*food security* could be one of the criteria to justify export controls", "government will facilitate the provision of support to *strategic productive sectors* based on clear and transparent criteria", "improving competitiveness of agro-processing through *economies of scale production* and improved technology".

An additional view – review by an ODI study of the trade content in the GPRS II

A recent ODI study (Driscoll et al 2007) revisits issues raised in previous evaluations of the trade content in the PRSPs (Hewitt and Gillson 2003, Ladd 2003) and examines some new PRSPs for the trade content (six PRSPs reviewed including Ghana). They asked 16 questions concerning trade content in PRSP (in addition to similar questions on the growth content). Overall, Ghana PRSP ranks higher than others on the basis of these questions. The study notes that there are 2-3 sub-sections in the GPRS II with trade content, and also importantly it refers to the GNTP04 itself. The GPRS II also provides some understanding of the differential treatment of sub-sectors in the trade context, e.g. when agriculture is assigned as the lead sector for economic growth, when the importance of diversification away from cocoa into other crops, including cereals, is stressed, and in implementing sector-specific measures to support strategic exports, notably the President's initiatives. Also on the positive side, the GPRS II provides a fairly good treatment of the supply-side constraints but is somewhat limited on the demand-side.

The study also finds answers to several other questions posed in the negative, i.e. the GPRS II did not address the issues. These include discussion on trade-poverty linkages, differential impact of trade by vulnerable groups, differentiation by consumers and producers, and by small and large farms and firms, and on regional trade integration. In a way, these are too many no's, but then, to be fair, the GPRS II refers to the GNTP04 which is comprehensive, and which evolved out of an Options Paper that considered many of the above issues. Seen from this standpoint, the GPRS II can claim to be rich on the trade content. Many countries are increasingly formulating both a PRSP and a trade policy. These serve different purposes, but it is important that the PRSP also has enough trade content and should provide overall guidance on trade policies, which are then detailed in the trade policy. A PRSP could be called mainstreamed when the positions taken are consistent with those in the trade and other national policies.

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Ghana - Articulating trade-related support measures for agriculture

Ramesh Sharma

1. Introduction

This third paper on Ghana complements the previous two on trade policy and trade mainstreaming by focussing on the issue of articulating trade-related support measures essential for trade development. The rationale for conducting the background works on these three topics together is that trade-related support measures should be fully consistent with, or are mainstreamed within, strategies and policies as articulated in a national development strategy such as the PRSP and in subsidiary policy frameworks (e.g. on agriculture, industry). This is also essential for prioritizing support measures. This paper is also a contribution to the efforts underway on operationalizing the Aid for Trade initiative at the country level. The background paper under the FAO project that contributed to this chapter is Asuming-Brempong (2010).

The rest of the chapter paper is organized as follows. Section 2 forms the substantive part. It reviews guidelines for investment, priorities and allocation of resources in key policy frameworks, covering the Ghana PRSP (the GPRS II), TSSP and agricultural development plan. One of the issues to be addressed in this review is the consistency across the policy frameworks in terms of prioritization of support measures. Section 3 concludes the paper with an overview on the overall approach to articulating TRSMs, and some other observations.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Trade-related support measures in national policy frameworks

Three policy frameworks and their corresponding implementation plans together provide a holistic picture of the vision, guidelines and plans for Ghana's TRSMs. These are the GPRS II, the TSSP 2005-2010 and Agricultural Sector Plan 2009-2015. What follows summarizes the priorities and plans in these frameworks, as well as illustrations of some agricultural trade projects that are considered to be innovative. Some of the observations summarized in this section were discussed in some detail in the previous two chapters.

2.1 The GPRS II

Volume II of the GPRS II provides a four year costing framework (budget allocation) for implementing GPRS II. The total cost is estimated at 73 374 trillion cedis or about USD 8 billion, which consists primarily of investment and service costs but excludes wages, salaries and administrative expenses associated with project and programme implementation. Of the total of USD 8 billion, 35 percent is for Pillar I of the GPRS II, 55 percent for Pillar II and 10 percent for Pillar III (Table 1). It is said that consistent with the emphasis given to growth in the GPRS II, resource allocation to the thematic area covered by Pillar I has been increased from 27 percent in GPRS I to 35 percent in GPRS II.

The table shows that within Pillar I about 16 percent of the total is allocated to both modernized agriculture and trade and industry. Private sector development programme also receives 10 percent of the total. Of the rest of the total in Pillar I (USD 1 604 million), just over 50 percent is allocated to transport, 26 percent to energy and the rest 24 percent to other components (natural resource management, science and technology, IT sector, tourism, music industry, and safety nets).

The 16 percent allocation to modernized agriculture is indeed a substantive amount, considering that 5-6 other important areas noted above share just 24 percent of the total. Moreover, this 16 percent is 60 percent larger than the 10 percent budgetary allocation to agriculture that the Maputo declaration has targeted. Also importantly, the 16 percent allocation to trade and industry, and the 10 percent to private sector development, are critical complementary inputs to the GPRS II goal of agriculture-led industrialization and growth.

TABLE 1:
Allocations across GPRS II Pillars (million USD)

GPRS II Pillars	2006	2007	2008	2009	Total	%
Pillar I: Private sector competitiveness	752	765	704	634	2 855	100
• Modernized agriculture	141	132	101	91	466	16
Increased productivity	2%	2%	2%	2%	2%	
Food security	76%	79%	81%	81%	79%	
Institutional capacity	22%	19%	17%	17%	19%	
• Modernized fishing methods and aquaculture	6	6	7	6	26	1
• Trade and industrial development	136	126	113	102	477	17
• Private sector development	51	84	78	70	283	10
• Rest of Pillar I	418	417	404	364	1 604	56
Pillar II: Human resource development	1 111	1 116	1 159	1 043	4 428	
Pillar III: Governance and civic responsibility	204	202	176	197	780	
Total	2 066	2 083	2 039	1 874	8 063	

Source: Appendix tables in GPRS II Volume 2

Within agriculture, Table 1 shows that 79 percent of the budget is allocated to food security. This however is somewhat misleading, and a reading of the text section in Volume I of the GPRS II reveals that this programme covers not only what is said as "food security" crops but also the "higher farm income" crops – essentially those products that "contribute significantly to domestic food security, agro industry and export". Specific development activities include irrigation, inputs supplies, research and development and so on. These are further elaborated in the agricultural programme.

2.2 Trade sector support programme

Ghana's TSSP (Ghana – TSSP 2005) can be said to be the equivalent of the DTIS of the LDCs, but it is more than a DTIS because it covers all aspects of trade, not just exports but also importables. As reviewed in some detail in the previous chapter on mainstreaming, the Ghana National Trade Policy 2004 (GNTP04 in short) addresses issues not only on the external but also domestic trade agenda to some extent. Also importantly, the TSSP is closely linked to the GNTP04 and GPRS II.

The key programme design features that are reflected horizontally across the TSSP are as follows:

1. *A new approach to programme design that facilitates implementation* – The design of the TSSP is directly related to the policy prescriptions in the GNTP04. The design process included a review of existing projects and programmes, identification of gaps and formulation of project activities in order to achieve the trade policy prescriptions.
2. *Ensuring a strategic fit between the TSSP and other key national development programmes* - The TSSP has been designed to complement the GPRS II and Private Sector Development Strategy as well as other ongoing projects and programmes in the trade sector in order to avoid duplication.
3. *Entrusting responsibility to government for programme implementation* – The central responsibility and accountability for leading programme implementation is placed on ministries and agencies rather than outside contractors.
4. *Maximzzing local ownership* - The TSSP has been designed through a collaborative process under which external consultants worked closely with the Ministry of Trade counterparts, and together consulted a wide range of stakeholders through a structured process of kick-off meetings, one-to-one discussions and presentations of findings and proposals.
5. *Built-in flexibility* - The TSSP has been designed to respond to emerging needs through rolling annual workplans and budgets within the parameters of the draft five-year project implementation plan and resource framework.
6. *Mainstreaming cross-cutting issues* - Provision is made in the design to mainstream crosscutting issues during the implementation of all programme components, including poverty and gender inequality, HIV/AIDS, good governance and sustainable environmental development objectives.

Designed for implementation for five years (2006-2010), the TSSP is a long document in three volumes. Volume 1 analyses present situation, challenges and specific recommendations. Volume 2 builds on these recommendations into a series of 26 implementable projects, each with targets, outputs, implementation plan and institutional responsibilities. And volume 3 provides budgetary details.

The 26 projects are clustered into 10 thematic components. Each project comes with a purpose statement, key targets for the five-year project period, and time-bound action plans with institutional responsibilities, performance indicators and budgets. The following listing of the 26 projects under the 10 components provides an idea of the range of the TRSMs envisaged.

- **Component 1: Multilateral trade**

Project 1: Improved structures for international trade negotiations
Project 2: Formulation and implementation of trade negotiation strategies

- **Component 2: Import-export regime**

Project 1: Tariff & non-tariff measures
Project 2: Export & import incentives

- **Component 3: Trade facilitation**

Project 1: Customs clearance
Project 2: Airport cargo handling, storage & cold chain
Project 3: Adequate and efficient facilities at ports
Project 4: Cost-effective and secure transit trade facilities
Project 5: Free port

- **Component 4: Production capacity**

Project 1: Development of industrial policy & sector strategies
Project 2: Investment promotion
Project 3: SME support
Project 4: Education-industry linkage
Project 5: Investment finance
Project 6: Infrastructure support & service delivery for strategic sectors

- **Component 5: Export trade support services**

Project 1: Export trade support services

- **Component 6: Standards**

Project 1: Institutional upgrading
Project 2: SPS & TBT
Project 3: Enforcement of standards on domestic market
Project 4: Productivity improvement

- **Component 7: Domestic trade and distribution**

Project 1: Improved trade and distribution systems and infrastructure
Project 2: Promotion of *Made in Ghana* goods and services

- **Component 8: Competition & government procurement**

Project 1: Competition
Project 2: Government procurement

- **Component 9: Consumer protection**

Project 1: Consumer Protection

- **Component 10: Intellectual property rights**

Project 1: Intellectual property rights

Looking at these from the standpoint of the scope of the AfT, it is obvious that these 26 projects, and numerous outputs and activities within them, cover many if not all elements of the AfT. Thus, these represent a holistic and balanced trade development agenda. What follows are two comments on the package.

First, note that some of the 10 components include areas that are not the standard "trade" subjects, but fall within the AfT scope under "building productive capacity" and "trade infrastructures" categories. In the above list, these would be components 4, 7 and 9. Component 4 is about building productive capacity, notably industrial capacity, and includes the formulation of industrial policy and related infrastructures. Component 7 addresses domestic trade issues: "To create an efficiently functioning domestic market for the development and distribution of products for both local consumption and export, and promote consumer welfare". This also includes storage, transport etc of agricultural products. Component 9 is about consumer protection. Its inclusion in the package, however, is consistent with the fundamental goal of the GNTP04 with its two parallel strategies: export-led growth and domestic market-led industrialization based on import competition.

Second, the package also demonstrates that the TRSM is not just about investment or "hard" infrastructure. A balanced package of TRSMs includes creating and strengthening institutions, directives and laws, analytical and institutional capacity, incentives and subsidies, as well as hard investment. The following compilation from the 26 projects and their outputs illustrates these varied categories of interventions.

Creating and strengthening institutions
- Reorganization of the Ministry of Trade and Industry
- Consumer protection authority
- Standards Setting Bodies
- Agency for trade remedy measures

Directives and laws
- Industrial policy
- Consumer protection policy and law
- Laws for IPRs
- Regulations and laws for Foreign Direct Investment

Analytical and institutional capacity
- Trade negotiations and formulation of negotiating strategies
- Policy analysis, including trade statistics
- Monitoring outcomes on trade flows and impact on poverty

Incentives and dedicated funds
- Channelling investment finance through banks to priority sectors
- Export incentives
- Incentives for private sector investment in infrastructures
- Appropriate rates of domestic and export taxes
- Dedicated loan facilities

Investment – "hard" infrastructures

- Cold storage
- Cargo facilities at airports and ports
- Infrastructures like roads and ports
- Investment on research and technology

2.3 Investment on agriculture

Following the completion of the revision of the FASDEP II in 2007, the government initiated the process of formulating a detailed implementation plan. The process was comprehensive and included the following: historical analysis of constraints and success stories, stocktaking of ongoing sector programmes, strategies and projects, value chain analysis of priority commodities, analysis of the needs of the new FASDEP II objectives, and a series of workshops and stakeholder consultations. The output - *Agricultural Sector Plan 2009-2015* (Ghana – ASP 2009, ASP09 in short) - offers detailed programmes and projects on agriculture. What follows is mostly based on that document.

In an effort to maintain consistency with policy, all the activities (projects, outputs etc) of the ASP09 are aligned to the same six strategic objectives of the FASDEP II. An attempt is made in Table 2 to provide a flavour of the programme as a whole. Against the six objectives, the ASP09 has a total of 20 components and 51 specific outputs.

Most of the individual outputs and projects in the table are fairly well known. There are, however, some points that are worth commenting, given the context of this paper. Two comments are made: i) the relative weight of the six programmes in budgetary term; and ii) increased priority accorded to commercialization and trade of not just cash crops but also food crops.

On the first point, Table 3 provides the relevant information. It shows that the first three programmes attract the most resources, about 70 percent of the total. The ASP priorities will shift in the later years (2013-15). Relative allocations to programmes 2 and 3 will increase (each by 5 percentage points) while that to programme 1 will shrink, and markedly so (by 10 percentage points).

On the second point, the fact that programme 3 would receive the highest budget share (30 percent of total) in the second period speaks itself of the importance given to commercialization and trade by the agricultural programme. This is also consistent with the emphasis in both the GPRS II and trade policy (see the previous chapter on mainstreaming). The essence of the programme is to enhance the capacity of semi-commercial and commercial smallholders, including agro-industry, to produce for the rapidly growing regional and domestic markets.

TABLE 2:

A snapshot of programme objectives and outputs of Ghana Agricultural Sector Plan 2009-2015

Programme objectives	Components and outputs
1. Food security and emergency preparedness	7 components, 16 outputs - For selected food crops (maize, rice, sorghum, cassava, yam and cowpea), poultry and guinea fowl, and cultured fishery, R&D, productivity and production programmes, human nutrition, off-farm activities, storage and distribution, early warning, emergency preparedness, irrigation, water, mechanization.
2. Increased income growth and reduced income variability	6 components, 12 outputs - Focus on cash/export crops and new products - R&D, productivity and promotion, of cash crops, livestock and fisheries production, new products development, pilot value chains, out-grower concept, rural infrastructures, urban and peri-urban agriculture
3. Increased competitiveness and integration into domestic and international markets	1 component, 3 outputs - Three focus areas: i) *food staples* - increased commercialization of staple crops by smallholders, capacity building on market driven production, market promotion programme for import substitution commodities (e.g. rice, chicken, cooking oil etc), connection to supermarkets, hotels and restaurants etc through value chains, anti-dumping regulations; ii) *cash/export crops* - promotion of non-traditional agricultural exports, identify and promote successful export models, private sector involvement; and iii) market information provision, grading, standards, laws, trade negotiations capability in MoFA.
4. Sustainable management of land and environment	1 component, 6 outputs - Policies and regulations to support sustainable land management (SLM), support the promotion of SLM, technology dissemination and adoption, SLM knowledge, and motivating incentive system for SLM.
5. Science and technology applied to food and agriculture	1 component, 5 outputs - Adoption of improved technologies, new technology along the value chain, extension, support private sector input distribution network, sharply increased agricultural research funding, bio-safety bill.
6. Improved institutional coordination and stakeholder engagement	4 components, 9 outputs - Capacity for planning, policy analysis and M&E at national, regional and district levels; MoFA communications strategy; human resource capability; inter-ministerial coordination; platform for private sector and CSO engagement; strengthen MOFA-donors coordination and collaboration.

Source: Author, based on the details in Chapter 3 of the Ghana Agricultural Sector Plan (Ghana - ASP 2009)

According to the ASP09, the projected higher prices of food products in the world market have created opportunities for enhancing the comparative advantage of food products. The recent global food crisis has also harnessed political support for the food sector. In the case of the external markets, new challenges are enhancing competitiveness in terms of the price and quality of products.

It is to respond to these opportunities and challenges that this programme objective was created – not an entirely new programme, but a strong reflection of the paradigm shift. Activities proposed under this programme are identifying successful lead firms/agro-industries and applying viable model(s) of linkage with

TABLE 3:
Planned budget allocation to the six FASDEP II programmes (amounts in millions of New Cedi)

	2009-12		2013-15		2009-15	
	Amount	%	Amount	%	Amount	%
Progrm.1: Food security and emergency preparedness	1 281	25	1 959	15	3 240	18
Progrm.2: Increased growth in income	1 025	20	3 265	25	4 290	24
Progrm.3: Increased competitiveness and market integration	1 281	25	3 918	30	5 199	29
Progrm.4: Sustainable management of land and environment	513	10	1 959	15	2 471	14
Progrm.5: Science and technology applied to food and agriculture development	513	10	1 306	10	1 818	10
Progrm.6: Improved institutional coordination Projected total budget allocation	513	10	653	5	1 165	6
Projected total budget allocation	5 125	100	13 059	100	18 184	100

Source: Table 19 of the ASP09. In July 2010, 1 New Cedi was about USD 0.7.

smallholders that have been developed through pilot and successful projects. At the same time, capacity building activities will be launched so that they are increasingly linked to markets. One expectation is that this will reduce the surging imports of such food products as rice, chicken and cooking oil. Likewise, on the export side, notable activities are identifying successful lead firms with access to assured export markets and applying viable model(s) of linkage with smallholders that have been developed through projects, as well as provide incentives to the private sector participants in value chains, and upgrade standards, grading and laws.

2.4 ECOWAS and intra-trade through food value chains

As also discussed in the previous two chapters, the objective of the ECOWAS is to expand intra-ECOWAS trade through a variety of measures including trade facilitation and regional programmes. Many trade and agricultural programmes at the regional level are being formulated. There are plans to mobilize resources, including through the AfT initiative, EPA and the CAADP/NEPAD.

One promising initiative is the recent ECOWAP/CAADP Regional Compact. As preparatory works for the compact were in progress, the 2007-08 global food crisis prompted some re-formulation of the programme. In June 2008, the Heads of State adopted a *Regional Initiative for Food Production and the Fight Against Hunger* that revised the intervention priorities for the implementation of the Compact. Three mobilizing and federating programmes were formulated: i) promotion of strategic food value chains for food sovereignty; ii) promotion of an overall environment favourable to regional agricultural development; and iii) reduction of vulnerability to food crises and promotion of stable and sustainable access to food.

Under the first mobilizing programme, the aim is to support all regional initiatives and strategies that promote food production and food value chains. A number of food products "that contribute to food sovereignty" will be promoted. These are millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products, with priority in phase 1 for rice, maize, cassava and livestock-meat and related products, and the rest in phase 2. The products are identified on the basis of: i) high production potential; ii) evolving dietary habits; and iii) large import bills. The second mobilizing programme has components that address regional integration and border policies, e.g. investing in trade infrastructures to boost regional trade in food products, and adaptation and implementation of new regional trade provisions.

2.5 Illustration of some innovative agricultural trade projects

According to ASP09, there were 13 development partners (DPs) funding agriculture sector-related projects and programmes in Ghana, totalling 63 interventions of which two were budget support. A tabulation of the ongoing interventions by the six FASDEP II objectives for the period 2000-2012 ("ongoing" as many projects continue beyond 2009) showed that most projects supported objectives 1 and 2 (Table 4). The second column shows planned programmes/projects for the period 2006/2007-2012.

The table shows that a majority of the ongoing DP activities is concentrated on the FASDEP II objectives 1 (39 interventions, 29.3 percent) and 2 (46 interventions, 34.6 percent). Likewise, a significant number of activities contributes to objectives 3 (19 interventions, 14.3 percent) and 6 (18 interventions, 13.6 percent). In contrast, objectives 4 (3.0 percent) and 5 (5.2 percent) are covered by DP activities only to a very limited extent.

Around the world, many projects have piloted innovative ways of supporting agriculture and trade. There is a great deal to learn from these and to apply the knowledge for new TRSMs. In Ghana too, several innovative projects have been attempted. As a contribution to the general literature on the TRSMs as well as to stress that such projects should be part and parcel of the approach to articulate

TABLE 4:

On-going and planned projects according to the FASDEP II objectives

FASDEP II objectives	Share of entries (percent)	
	Ongoing	Planned
1. Food Security and Emergency Preparedness	29.3	22.2
2. Increased Growth in Incomes	34.6	27.8
3. Increased Competitiveness and Integration into Markets	14.3	19.4
4. Sustainable Management of Land and Environment	3.0	5.6
5. Science and Technology applied in Good and Agriculture Development	5.2	11.1
6. Improved Institutional Coordination	13.6	13.9

Source: Table 15 of Ghana ASP (2009)

TRSMs, what follows provides briefs on four projects that illustrate the initiatives underway to develop agriculture as business through links to markets and trade, and as part of the value chains.[1]

Trade and Investment Programme for a Competitive Export Economy (TIPCEE) – This was initiated by USAID in 2005 with a resource envelope of USD 30 million for five years. It sought to achieve rapid exports through increased competitiveness of Ghana's private sector. The project consists of two components: Enabling Environment (EE) and Export Business Development (EBD). The EE focuses on improvement of the legal and regulatory environment for private sector operations and investment with respect to trade, finance and agriculture, with most of the support taking the form of technical assistance. The EBD works with the private sector to build its capacity to compete in the regional and international markets. The EBD component is driven by market demand: farmers are taught to produce what they can sell and not to sell.

A major goal of the TIPCEE is to integrate smallholder farmers into export-oriented (and more recently domestic market) value chains. Thus, smallholder groups are linked to exporting firms in the pineapple, mango, papaya and vegetable sub-sectors, and local or regional firms in the case of other commodities such as maize. TIPCEE is also collaborating with the nucleus firms to increase their ability to engage with smallholders. One major defining character of the TIPCEE is that it works predominantly through the private sector and only partially through government structures.

Another notable approach of the project is its collaboration with other ongoing donor projects, e.g. *with Market Oriented Agriculture Programme (*MOAP) funded

1 These illustrations are from *inter alia* Wolter (2008) and Asuming-Brempong (2010).

by Germany. In 2006, TIPCEE provided technical and financial assistance to a Ghanaian company that produces juice and juice concentrate to enable it to supply 500 tonnes of pineapple concentrate to the Coca-Cola Company. In 2006, USAID Ghana raised the estimate of the number of rural households that should benefit from the programme from 30 000 to 100 000. For this, the TIPCEE's mandate was also expanded to include certain food crops (citrus, tomatoes, onions and maize) that target regional markets and/or domestic markets.

EMQAP – non-traditional exports – Non-traditional exports have received considerable attention in Ghana, as elsewhere, from all parties involved - farmers, traders, government and donors. There are many projects that contribute to this sub-sector. One of them, focussed on horticultural products, is the AfDB-funded Export Marketing and Quality Awareness Project (EMQAP). Operational since 2007 with a resource envelope of USD 25 million, it seeks to increase incomes of horticultural farmers and exporters and of cassava producers. It covers the entire value chain for pineapple and cassava and some other horticultural products (papaya, eggplant and chillies). The project activities include developing value chains, database on market information and consumer preferences, marketing strategies for the selected horticultural crops, 410 km of all-weather road, cold chains and so on. The integration of cassava processing is considered to be an innovative feature of the project, and contributes to integrating more smallholders than would have been otherwise.

NRGP –Value Chains in Northern Ghana - Wolter (2008) in his review of projects has remarked that while much donor support has been going into the export-oriented horticultural sector, the NRGP, funded by IFAD, stands out in that it is a project aimed primarily to fight poverty in northern Ghana. Over the years, IFAD through this and other projects has been active in building domestic markets for traditional food crops by promoting the modernization of production of specific commodities (roots and tuber crops - cassava, yam, sweet potatoes). The project was also a response to a common criticism that the focus of many donor efforts has been disproportionately on production and much less on market linkages. Accordingly, the NRGP promotes a value chain approach with a special focus on linking producers to the market, thus working simultaneously with the rural poor as well as traders, wholesalers and exporters. The aim is to encourage food-crop farmers to produce for the markets in southern Ghana as well as abroad and not just for own consumption.

The NRGP, initiated in 2008 with a total project cost of USD 60 million, will support three northern regions to develop the value chain of 11 commodities (five rain-fed and six irrigated). It also envisages investments in rural infrastructures such as small dams and transport links, and improved access to rural financial services. The NRGP is going to be a test case for demonstrating if the value chain approach works for small holders and for food crops.

Agricultural Value Chain Facility under SDSP II project – This is considered to be a good example of a project that was conceived with clear grounding into one of the core development strategies of the GPRS II – enhancing private sector competitiveness (DANIDA 2009). Support to agricultural value chains is one of the components of the SPSD II project (Support to Private Sector Development – Phase II, 2010-2014), funded by Denmark. This component aims at enhancing the access to finance and business development services to commercial as well as rural farmers, and actors in the up and down-stream of promising agricultural value chains. The support focuses on improving access to medium to long term finance combined with mentorship/ technical assistance to key players in the value chains, including commercial farmers, seed producers, input suppliers and agro-dealers, agribusiness and agro-processors, marketers, farmer-based organizations and groups/associations of out-grower farmers. Being part of the SPSD has an additional advantage as the project has also other components supporting private sector programmes. Collaborators are Stanbic Bank and the Alliance for a Green Revolution in Africa. The latter will provide advisory/mentorship services throughout the value chain to strengthen the capacity of agribusinesses and farmers' organizations.

3. Conclusions

With a series of linked and consistent policy frameworks – the GPRS II and the recent Long-Term Development Plan 2009-2015, the trade policy and its TSSP, and the FASDEP II and its implementation plan – Ghana's planning framework at the strategic level is very impressive. Looking on the ground, Ghana has also accumulated experiences through a variety of projects on what works and what does not. All recent frameworks have stressed on markets, competitiveness and private business environment as the way forward. This is the environment within which agriculture as the core productive sector in the GPRS II is to be modernized. Food sector is given its due prominence. All in all, these point to the prospect of much higher return than before of the increased flow of external and domestic resources to the productive sectors.

Several commentaries were already made in the previous section while going through various policy frameworks and their implementation plans as regards the TRSMs. As noted at the beginning of this paper, what is important is that the TRSMs are mainstreamed, or in other words are articulated through the frameworks. As noted in Section 2, this seems to be the case mostly in the case of Ghana. The challenge ahead is obviously one of implementation. What follows adds some more observations – the first point on the effort being made to ensure mainstreaming, and the next 2-3 points on the approach and process.

Addressing the challenge of mainstreaming support measures

One recurring complaint in the development literature is the mismatch between stated goals and priorities on the one hand, and actual public expenditure on the other. One interpretation of the concept of mainstreaming would be that such a mismatch is avoided or minimized. In the context of the TRSM for example, investment should follow from the PRSP priorities.

The GPRS II is conscious of this issue and so addressed this right at the beginning of its Costing Framework (in Volume II). Towards ensuring a close link between the GPRS II programme priorities and expenditures, the following three measures were said to have been adopted:

1. *Pooling of resources for financing expenditures associated with the implementation of the GPRS II* - The idea is to consolidate and rationally allocate all available funds targeted at growth and poverty reduction by the MDAs (ministries, departments and agencies).
2. *Improved targeting of the resource allocation mechanism* – To ensure that resources are targeted on priority programmes, projects and activities under the respective thematic areas of the GPRS II.
3. *Alignment of MDAs' objectives to the strategic objectives of the GPRS II* – Under the previous medium term expenditure framework, which provided the framework for annual budgeting, the objectives are drawn from strategic plans developed by MDAs. Under GPRS II, all MDAs objectives are aligned to GPRS II objectives in order to enhance the environment for a more effective monitoring of expenditure outlays in the GPRS II.

Recent approaches to articulating support measures have taken due note of the development strategy

An example of the initiative to articulate trade projects anchored to national development strategy like the PRSP is the *Agricultural Value Chain Facility* under the DANIDA project SDSD II, summarized in the last section. Another such example would be the *Strategy Framework for Agribusiness Development in Ghana,* proposed for USAID by a study team (Easterling *et al.* 2008).

Following an analysis of the past and current approaches and practices, Chapter 6 of the latter document presents "a prioritized programme development framework for USAID".

It notes that commercialization-based competitive business practices is critical to achieve agricultural transformation, and that the span for commercialization can be both for domestic markets as well as international markets -- both regional and beyond. With this broader space, it concludes that a focused strategy should aim at increasing the productivity of selected staple food/cash crops and a selected set of non-traditional export crops with an emphasis on horticultural products.

The strategy has six elements, with the following first two being the major ones: i) economic growth through the export of high-value agricultural products; and ii) poverty reduction through the production and marketing of food crops. The other four elements play a supporting role to the first two (these include FDI, policy analysis, dialogue, matching grants for business development, and business management training). The basic programmatic approach will be value chains, with support provided at various points of the chain to solve problems and remove constraints, develop appropriate practices to increase the output and improve the efficiency of farm production, post-harvest handling, processing and marketing of the targeted products. Linking farmers to markets is implicit in this framework.

Importance of "soft" infrastructures – policy, regulations and institution building

In the literature as well as in meetings of senior officers, one typically finds "hard" infrastructures given the most attention while undermining "soft" infrastructures. While this may not apply so much to Ghana based on a reading of the 26 projects under the TSSP, this is an issue in general in the context of the TRSM, and so needs to be noted. Many evaluation studies of projects in particular typically conclude that the project did not work, despite the availability of funds, because its activities suffered from numerous cross-cutting obstacles beyond the control of the project authority. These range from local taxes and lack of legislation for business contracts to trade policy that failed to respond to import surges or depressed import prices. Indeed, a typical agricultural value chain passes through at least a dozen stages from the farm to market and beyond the border. What happens there will determine competitiveness in price and quality.

While lack of fund for hard infrastructures is often perceived as the main constraint, it is much less explained why the government failed to carry out simple reforms like reducing (or eliminating) the numerous local taxes along the chain or not enact a legislation on contract farming despite knowing its significance for many years. This is the type of postponed reforms that are most frustrating for the business. Studies on product competitiveness within the framework of a value chain hold the potential to bring out such problems and also demonstrate their quantitative significance. Through these works, stronger cases can be made for undertaking often politically difficult policy reforms, institutional changes and legislation necessary for raising competitiveness. Value chain studies are just beginning. It is necessary that such studies and analyses are recognized as a core component of the TRSM. So are obviously the investment in soft infrastructures.

Targeting "strategic" sub-sectors/products for special treatment

This issue was addressed in the previous two chapters also and is raised again in view of its significance in articulating TRSMs. As in many other developing countries, strategies to promote special or strategic products are also found in Ghana's policy frameworks.[2]

The GPRS II speaks of according special treatment to "strategic exports", initially focussing on products in the President's initiatives (in agriculture, cotton, oil palm and cassava starch). It also calls for identifying and promoting new productive sectors. In its agricultural section, there is a strategy for selected crop development. The 2004 trade policy also makes a reference to special products. One of its strategies is identification and targeting of specific sectors for development. In the GNTP04, strategic productive sectors are mentioned, as well as strategic farm products. In FASDEP II too, selecting products for special treatment is found in food security and farm income strategies, the former calling for promoting at most four staple crops and the latter stressing on diversification into cash crops and livestock. Lastly, the ECOWAP/CAADP Compact also has a programme for promoting in the region strategic food value chains covering millet/sorghum, maize and rice, roots and tubers, fruit and vegetables, and meat and dairy products.

The question asked here is how do these statements influence the prioritization of resources and identification of TRSMs? This is not clear. The list of such products is too long currently to sharpen the priority, and so more thoughts are obviously needed. Following this, a second question is what special treatments are to be provided to these identified products? This too is not that clear. Putting in place value chains for these identified products is likely to be one action, together with associated institutional and policy reforms. The FASDEP II has detailed chapters on many of these agricultural products but budgets and other resources, including subsidies/incentives, are not indicated, and so it is difficult to comment on the priority. Obviously, some more work is needed for fine-tuning the programme on special or strategic products.

Fresh views on the TRSM articulation process and stakeholder consultations

As part of the preparation of the three background papers on Ghana, several stakeholder consultations were held to solicit fresh views on various issues, including the process of articulation of the TRSMs (Asuming-Brempong 2010). A series of workshops were also held where participants shared their views. In

[2] There are many examples of such an approach in other fora also, e.g. negotiations for designating selected products as special or sensitive in the Doha Round. Another example would be the targeting of about a dozen food products for increased intra-African trade by the 2006 Abuja Summit on Food Security.

addition, several MDAs were also visited to consult with officials on issues relating to TRSM, among others. The overall feeling was that the process followed by Ghana in the identification, articulation and prioritization of trade policies and TRSMs was comprehensive and participatory, and on the whole produced policies, programmes and projects that were consistent. There was a discussion on the issue of appropriately balancing the soft and the hard side of trade-related assistance by donors, the former being measures like strengthening institutional capacity (e.g. training on negotiations). The feeling was that soft assistance is often favoured. There was also a general support for basket funding of projects in order to avoid many fragmented projects with limited impact. And lastly, there was a strong support for the view that more and more of the TRSM resources should be channelled in order to entice the private sector in agricultural value chains.

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Nepal – Agricultural trade policy issues

Posh Raj Pandey

1. Introduction

A number of structural and policy factors have determined the evolution of Nepal's trade pattern. Among the structural factors include highly subsistence agricultural economy, some diversity in production due to geography and climate, highly porous border with India, and India's protectionist trade regime until recently which induced some export oriented industries in Nepal to take advantage of the tariff differential. On the policy front, Indo-Nepal free trade agreement in primary agricultural products has been a major factor. Since about early 1990s in particular, Nepal also undertook significant policy reforms towards a liberal, market-oriented trade and economic regime. Loan conditionality from Nepal's main donors was an important factor behind these reforms. Nepal's WTO accession in 2004 and the commitments made then was also an important factor in influencing subsequent policies. Internally, trade policy making process involves two interrelated aspects: one relates to trade policy per se and the second concerns the design of the institutional framework governing trade policy formulation process. It is the second aspect that determines the inclusiveness, comprehensiveness and robustness of trade policies in the long run. Accordingly, the paper is made up of two main parts - a substantive and longer trade policy part and a shorter part on the trade policy formulation process.

The rest of the paper is structured as follows. Section 2 provides an overview of the evolution of Nepal's trade policy. It covers historical perspective, trade agreements and Nepal's current trade policy unveiled in April 2009. Section 3 discusses a number of issues on Nepal's trade policy and comments on them. Section 4 discusses the process of trade policy formulation. And section 5 concludes summarizing the main points and suggestions for further debate and analysis.

2. The evolution of trade policy

2.1 Trade policy developments through 2008

The historical development of Nepal's trade policy can be grouped into three distinct regimes: i) an essentially free trade regime in the earlier years (1923-1956); ii) a protectionist, import-substituting regime during 1956-86; and iii) an open and liberal regime since 1986, further more so from 1992 onwards.

Historically, for centuries, Nepal served as an interport for trade between the Tibet region of China and India, with no formal policy or mechanism to regulate that trade. This trade yielded considerable revenues to rulers along the trade route, especially the Kathmandu valley. It was only in 1923 when Nepal for the first time signed a trade treaty with British India, binding Nepal to import goods freely from Britain and British India. Exports to India constituted mainly agricultural, mineral and forest products such as timber, rice, ghee etc, much like now.

The next important milestone was 1935 when Nepal initiated a process of state-led industrialization, by creating an *Udyog Parishad* (Industrial Council) and establishing some industries based on the processing of local products like jute. Protecting these industries became the natural concern of industrial and trade policies.

But the seed of a protectionist trade regime was formally sown with the launching of the first development plan in 1956. As it was common then throughout most of the developing world, including India, the plan announced and implemented a series of policies and measures that have come to be known today as the classic import-substitution policies for state-led industrialization. These included, for example, the requirement of a license for export-import business, high tariffs and quotas, controls on foreign exchange transactions, and so on. Throughout the 1970s, efforts were made to promote a variety of import substitution industries, typically relatively capital intensive public manufacturing enterprises.

At the same time, and in parallel to most other developing countries, the government recognized the negative effects of this strategy on incentives for exports and so a variety of responses were made. These included, for example, incentives through favourable foreign exchange facilities, relief on import tariff for raw materials, and lower export taxes. Likewise, diversification of export destinations, notably away from India, has always been an objective of Nepal's trade policy, and several incentive measures were taken for this. For example, a dual exchange rate system was used in 1977 to provide higher incentive (of about 25 percent) for exports of traditional goods like raw jute, leathers, pulses and rice to countries other than India.

The next important milestone in the evolution of Nepal's trade policy was export promotion programme of 1983, which indeed could be said to be Nepal's first trade policy. Consistent with the export promotion and diversification policies of the Seventh Plan, this programme announced measures that were consistent with a more liberal and market-oriented trade regime that also accorded important role for the private sector. Also, some trade facilitation measures were taken to address the demand of the private sector such as de-licensing of exports, waiver of income tax on export earnings, bonded warehouse facility, simplification of customs procedures, establishment of National Export Trade Development Council etc. The major provisions of the 1983 trade policy were as follows:

1. Cash incentives in hard currency equivalent to 10 percent of f.o.b. value of export earnings for items other than leather and leather products.
2. Cash incentives in hard currency equivalent to 10 percent of f.o.b. value of export earnings for items other than leather and leather products.
3. Provision of 15 percent of export earnings in convertible currency for the import of raw materials and capital goods.
4. Lowering of custom duties on export items to 1 percent.
5. Provision of duty drawbacks for export-oriented industries.
6. Provision of pre-export loans up to Rs. 250,000 for the collection and processing of exportable goods against the letter of credit opened by importers.
7. Provision of loan for export purposes at lower than prevailing lending rate for the first month.
8. Arrangement of refinance facility from Nepal Rastra Bank to Commercial Banks to enable the latter to extend export credit, and
9. Channelling of at least 10 percent of the loan from the Nepal Industrial Development Corporation towards export oriented industries.

The mid-1980s was a period when Nepal implemented a series of Structural Adjustment Programmes (SAPs) with the support of mainly the IMF, World Bank and ADB. The focus of the SAPs was on, inter alia, correcting incentives structures in agriculture and industry, and on relaxing what was then held as an overly restrictive trade regime. In the trade sector, various measures initiated included the following: sharply reducing maximum tariff rates (e.g. in many cases from as high as 450 percent to around 100 percent); reducing "additional duties" by 5-10 percent points; replacing quantitative import restrictions by passbook system for imports of raw materials and intermediate goods; placing more and more items under the open general license (OGL) for overseas imports; and, in 1987, introducing duty drawback for both import duties and sales tax. The process of trade liberalization was interrupted briefly in 1989 due to trade and transit impasse with India.

These reforms in the mid-1980s, along with the availability of market access under GSP schemes from developed countries, are considered to have contributed substantially to the expansion of readymade garment exports and some other products. However, there are no sound evaluation studies to substantiate these claims.

The decade of the 1990s is yet another important period in the development of Nepal's trade policies. This commenced in 1991 with the advent of democracy. In that highly liberal economic and political environment, a new and more liberal trade policy was announced in 1992 along with other economy-wide reform measures. It aimed at promoting sustainable trade to enhance the national economy by undertaking open and liberal policies, and by allowing wider participation of the private sector. It also accorded priority to new product development, trade diversification and promotion of backward linkages, reduction in trade imbalances and coordination with other sectors of the economy. The salient features of the policy were: i) minimum role for the public sector; ii) liberal and dynamic trade policies and procedures; iii) emphasis on production and exports of quality goods and services; iv) simplification of procedures; and v) development and strengthening of institutions.

Thus, in July 1993, the system of foreign exchange auction for imports of industrial raw materials was abolished and all imports were placed under the OGL system. The current account was made fully convertible in February 1993. Also introduced was duty drawback scheme for imported raw materials used for export. License requirements for exports were waived with the exception of some banned items. Similarly, income taxes on exports were also exempted by the trade policy. All exports were made free from all charges except service fees. Tariff rates were reduced sharply as well as rationalized, from numerous slabs in the 1980s to just five in 1995/96. However, the government kept changing the tariff slabs in order to optimize the revenue collection. Another simplification was the elimination of additional duties in 1993/94, but this was quickly reversed by introducing local development fees, in order to compensate revenue losses of local bodies after octroi was abolished.

Likewise, security tax was introduced to finance additional security costs during the armed insurgency period in late 1990s (now abolished). Local development fee was also reduced; the aim is to abolish them, as part of Nepal's commitments to the WTO. The government also introduced agriculture development fee of 5-10 percent, depending on the nature of the products, on all agricultural products for which customs duties are exempted (i.e. from India). The rationale was to provide some protection to Nepalese farmers from imports from India, by circumventing the provision of Nepal-India trade treaty under which all agricultural trade is free of basic customs duty (discussed below). On the other hand, export development fees were introduced to generate resources for export promotion activities. But this was abolished at a later stage as private sector protested, stating ineffective utilization of collected money.

2.2 Trade agreements

Nepal is a signatory of some trade agreements. These are Nepal-India trade treaty, SAFTA, BIMSTEC, and the WTO. The first of these is the most important agreement in terms of the volume of trade.

Nepal signed its first Trade and Transit Treaty with India in 1950. The treaty was renewed in 1960, 1971, 1978 (when trade treaty was de-linked from transit treaty), 1991, 1996, 2002 and 2009. The treaty provides reciprocal duty free and without any quantitative restrictions market access for 16 agriculture and primary products, including paddy, wheat, maize, rice, pulses and flour. With regard to manufacturing products, it grants duty free and quota free access to the Indian market for all articles manufactured in Nepal which qualify the rules of origin criteria. It also exempts application of export restriction on case by case basis. In fact, the 1996 treaty bestowed practically duty free market access for almost all products produced in Nepal. However, the revised treaty of 2002 introduced several new restrictions: i) a more stringent rules of origin (minimum 30 percent domestic value addition); ii) tariff rate quota (TRQ) on Nepal's exports of vegetable ghee, acrylic yarn, copper, and zinc oxide; and iii) invocation of safeguard measures if the imports cause or threaten to cause injury to the domestic industry or a significant segment of it (GoI 2009).

Nepal as a LDC is also entitled for special and differential treatments enshrined in WTO agreements. Nepal's WTO bound tariff on agriculture products is 41.4 percent on average and has committed to phase out other duty and charges (ODCs) by 2012. Nepal does not provide any export subsidy to the agricultural products and the domestic support to the agriculture sector is very low.[1]

2.3 Trade policy 2009

The GoN enacted Trade Policy 2009 (GoN 2009, NNTP09 in short) taking into account a number of developments and objectives. These included the following: i) the need for developing products of comparative and competitive advantages; ii) strengthening linkages of the export sector with the domestic economy; iii) improving inter-sector policy coordination; iv) facilitating trade and developing trade-related infrastructures and services; v) improving the supply side capability in order to take advantage of the membership of the WTO and other regional trade agreements. The main focus of the previous trade policies was on the reduction of market distortions, deregulation and institutional development. In contrast, the new trade policy recognizes that export

[1] Detailed accounts on Nepal's positions on domestic support measures, market access and export subsidies in the context of the WTO Agreement on Agriculture are found in the following three papers: Awasthi and Adhikary (2004), Pant et al. (2004), and Tiwari et al. (2004).

development is essential to sustained broad-based economic growth and poverty reduction in light of the small domestic markets and thus is heavily concentrated on the "supply side" and is oriented towards export "development" and not just "promotion". Although the policy recognizes the need to establish increased linkages of export sector with other sectors of the domestic economy, it does not intend to promote explicitly the import competing sectors.

The main objectives of the NNTP09 are: i) to create conducive environment to promote and enable enterprises to compete at international level through simplification of procedures, trade facilitation, institutional and policy reforms and infrastructure development; ii) to reduce trade deficits through the promotion of high value added exports; iii) to promote competitiveness in the trade of goods and services and create employment opportunities; and iv) to establish linkages between domestic and international trade.

The salient features of the trade policy include the following: i) lead role assigned to the private sector for export promotion, limiting the role of the state as a guide, facilitator and regulator; ii) reducing transaction costs through the development of infrastructures and trade facilitation measures; iii) undertake legal and regulatory reforms so as to enhance competitiveness at both the regional and global level; iv) enhance linkages between the export sector and other sectors of the economy; v) harmonize other sectoral policies with trade policy; vi) provide necessary incentives for export-oriented industries, including through simplified import procedure for raw materials, export trading houses, exemption of custom duties and domestic taxes, and product development fund; vii) establish export processing zones and special economic zones; viii) develop required skills and technology for export development; ix) ensure intellectual property rights and formulate policies for trade in services; x) identify products of comparative advantages and also export promotion programmes for these products; xi) institute participatory institutional mechanisms for trade policy formulation, evaluation and implementation.

The NNTP09 was also a significant departure from the previous trade policies in that the policy formulation process provided opportunity to stakeholders to view their opinions on the draft policy document and the process was relatively participatory (discussed below). One important issue and a big question mark for the success of the trade policy is the support expected from other government agencies, especially for agriculture because so many of the identified priority products are agricultural. This is also an issue of policy consistency or mainstreaming and is discussed in detail in the next chapter. One weakness of the NNTP09 is that it does not provide indicative resource requirements for its programmes, and this will raise questions from sceptical analysts. Likewise, it also lacks an in-built monitoring and evaluation system which is so essential given the dynamism of international trade and trade policies.

2.4 Trade policy instruments and tariff structure

The key trade policy measures taken so far can be summarized as folows:

1. Eliminated quantitative restrictions on imports and import licensing.
2. Reduced import tariff rates, including tariff peaks.
3. Zero tariffs for information technology products.
4. Reduced the number of tariff slabs to six.
5. Made fully convertible current account of balance of payments (now market determined).
6. Limited export duties only to selected natural resource products.
7. Undertook reforms to introduce export incentives and neutralize anti-export bias with instruments like duty drawback and bonded warehouse system.
8. Simplified export and import procedures.
9. Took steps to attract FDI, permitting 100 percent foreign ownership in most sectors, with the exception of sectors with strategic importance.

Nepal's tariff structure shows slightly higher level of unweighted average of MFN tariff rates for agricultural products than that for the non-agriculture sector, implying higher level of nominal protection to agriculture than to manufacturing (Table 1). Within agriculture, average MFN tariff is high for beverage and tobacco, coffee and tea whereas for cereals it is less than 15 percent (WTO 2008). The government also imposes agriculture development fee of 5-10 percent, depending on the nature of the product, on all agricultural products for which customs duties are exempted. The rationale for this fee is to provide some protection to the Nepalese farmers from the Indian imports by circumventing the zero customs duty provision in the Nepal-India trade treaty. Nepal does not have significant NTBs other than quarantine and product composition standards.

2.5 Assessment of policy developments and impact

An assessment of the effectiveness of Nepal's past trade policies needs to be made taking into consideration several factors. First, Nepal embarked into organized economic development very recently in a relative sense. Second, Nepal lacked and continues to lack basic productive capacities and infrastructures to generate surplus for trade or to respond to new trading opportunities. Third, being surrounded from three sides by India with a highly porous border, while also an opportunity, is also a major constraint in terms of not being able to influence incentives and pursue independent trade policies. Fourth, Nepal's own market is very small for industrial expansion and realization of economies of scale, and so export markets are essential. Trade performance is determined by these and other factors, and it is difficult and risky to relate policy changes to aggregate trade outcomes like export growth. What would be more useful is policy evaluations that use more proximate impact indicators (outcomes, effects etc). Unfortunately, it proved very hard to find good analyses that have assessed the impact of policies.

TABLE 1:
MFN tariff rates, 2007 (*ad valorem*, percent)

MFN tariff banks	Agricultural products	Non-agricultural products
Duty free	0	0
0<=5	9.8	30.0
5<=10	60.5	28.0
10<=15	19.1	27.1
15<=25	1.8	11.5
25<=50	7.3	2.6
50<=100	1.4	0.7
> 100	0	0
Simple average	14.0	12.4

Source: WTO (2008)

During 1985/86-1987/88, Nepal's GDP growth rate exceeded 4 percent and productivity of cash crops rose. However, agricultural production and exports remained vulnerable to the vagaries of weather. Although this continues to be debated, it is generally held that reforms under the Structural Adjustment Programme (SAP) contributed positively to growth and development. Industrial production rose by about 70 percent during the SAP period. Despite deteriorating terms of trade, the programme contributed to the expansion of non-traditional exports such as carpet and garments and increased income from tourism and as a result the balance of payments position improved steadily. Policy reforms in agriculture under the SAP included the abolition of compulsory procurement at concessional prices and withdrawal of fertilizer subsidies. It is held that the former enhanced production incentives and the latter increased supplies of fertilizers, in large part because leakages to India were reversed. At the same time, liberalization of investment and import licensing procedures reduced the cost of doing business and improved incentives to generate productive employment, e.g. in carpet and garment sectors. Likewise, these measures provided incentives for private investment in small scale industry. Importing raw materials was made much easier and many administrative hassles reduced. Despite these positive impacts, income distribution did not improve.

During the recent past, export growth fell from an annual average of 6.9 percent during 1995-1999 to less than 1 percent during 2000-2006. Services exports recorded negative growth during this period because of sharp declines in transport and tourism services due to conflict (Table 2). The decline in exports was more pronounced in the case of exports to overseas countries[2] and in woollen carpets,

[2] The share of overseas countries (countries other than India) in total exports declined from 40 percent in 2000-01 to 31 percent in 2006-07.

readymade garments, *pashmina*, handicrafts, vegetable ghee, jute products, textiles and chemicals.[3] There was much less success on the goal of diversification. Exports remained concentrated to India as regards destination, and limited to 3-4 products only (mainly ready-made garments, *pashmina* and carpets). As a result, Nepal's share in global exports declined from 0.017 percent during 1995-99 to 0.008 percent in 2007.

Moreover, the economy continued to suffer from the longstanding structural weakness on the supply side, with exports not much linked to domestic economy through raw materials. Stiff competition from Indian exports to Nepal was another major constraint to industrial growth. Taking into account the dismal state of industrialization, income distribution, poverty and trade balance, strong voices were also raised on the desirability of a liberal trade regime in the long run (Panday 1999).

There are various studies available for review on the impact of trade liberalization on growth, poverty etc. Interestingly, some researchers have used economy-wide models (the CGEs) to answer these questions (Cockburn 2001, Sapkota 2002 and Sapkota and Cockburn 2008). The findings are qualitatively similar. Briefly, they find that trade liberalization reallocates resources away from non-trade services towards export-oriented manufacturing, mining and hotel/restaurant sectors. As a result, output in industry and hotel and restaurant increases and agriculture sector declines, with the impact on paddy coming out highest. Impact on consumer prices is very small. Overall, the size of the impact is very small. The message that comes out is that trade liberalization has little impact on aggregate welfare at the national level but there are winners and losers, with smaller income gains for the poorest groups than for the richer households. The negative impact on poverty is higher for the Tarai, followed by hills and mountains and least in urban areas.

There is hardly any other study to review. Industry-specific or partial equilibrium studies would have been more useful. For example, there are export industries such as *vanaspati ghee*, copper and acrylic that have grown taking advantage of tariff differentials on raw materials between India and Nepal. These industries contribute to revenue and some jobs but, being fully based on imported raw materials, very little to the real economy through backward linkages. So one question often asked is what is the net contribution of these industries to poverty, versus, say, other export products that are based on local resources, such as tea and ginger? Sadly, these questions have not been subjected to rigorous analyses. This has hindered policy making, for example to decide where the government should channel its support and incentives, as well as capital in negotiating trade agreements. Also

[3] The share of woollen carpets, readymade garments, pashmina, handicrafts, vegetable ghee, jute products, textiles and chemicals in total exports declined from 75 percent in 2000/01 to 32 percent in 2006/07.

TABLE 2:
Nepal's trade performance

Indicators	1995-1999	2000/2004	2005/2006	2006/2007
Export growth at current prices (percent)	6.89	0.35	0.10	9.00
Growth of merchandise exports	11.12	6.61	0.67	10.54
Growth of services exports	4.85	-4.29	-8.03	6.81
Import growth at current prices (percent)	4.53	6.51	13.23	14.00
Growth of merchandise exports	5.82	6.16	6.18	14.97
Growth of services exports	-5.74	13.77	13.14	8.65
Exports as a percent of GDP	24.30	18.33	14.73	13.44
Merchandise exports	9.27	11.43	9.32	8.38
Services exports	14.89	6.67	4.48	4.11
Imports as a percent of GDP	35.55	30.08	32.98	33.32
Merchandise imports	29.91	26.00	23.12	24.07
Services imports	5.06	4.12	5.41	5.34
Export share of world market (percent)	0.017	0.013	0.009	0.008
Import share of world market (percent)	0.025	0.021	0.021	0.021

Source: Government statistics.

lacking is studies and debate on the net impact of the Indo-Nepal trade agreement on agriculture and poverty in Nepal, which would have provided tips to the government on how best to strengthen the positive effects and respond to the negative ones. There is thus a large research agenda to be initiated.

3. Selected issues on agricultural trade policies

Based on the above review of policies and taking into account observations from stakeholder consultations, the following four issues related to Nepal's agricultural trade polices are selected here for some further discussion.

Issues on Nepal-India trade

The provision in the Nepal-India trade treaty of duty free market access for agricultural and primary products on a reciprocal basis, coupled with the porous border, has created *de facto* free trade for both products and inputs, through both formal and informal channels. This has constrained Nepal to pursue independent trade policy in the sense of maintaining relative prices different from that in India, or in providing protection to selected products and sub-sectors. This was one important reason why Nepal abandoned its farm price support programme in the 1980s and later withdrew price subsidies on fertilizers. Furthermore, the Nepalese agriculture faces intense competition from the Indian imports as the Indian agriculture (and agro-industry) is more advanced in terms technology and economies of scale, and also benefits considerably from subsidies.

In view of this, there is some debate in Nepal on how best to create some policy space for trade and pricing policies for addressing the needs of the agricultural sector. Three options are often discussed: i) matching India on the provision of supports and incentives; ii) introducing para tariffs or non-tariff measures such that the playing field is levelled; and iii) renegotiating with India on the coverage of the products that enjoy reciprocal free market access. These are not easy options. On the first, given Nepal's fiscal situation and administrative weaknesses, it is very difficult for Nepal to match the support provided by India. As regards the second option, while the Nepal-India trade treaty does not prevent Nepal from introducing some para tariffs like agriculture development fee on imports from India (as now), Nepal has made a commitment at the WTO not to use such measures beyond 2012. The third option is somewhat promising if Nepal could renegotiate with India to exclude from the *reciprocal* duty free list at least some major farm products like paddy, wheat, maize, millets and their products. However, not much concrete is happening on any of these issues, neither from the government side nor in terms of studies and discussions. Neither does the 2009 trade policy have anything to say on these issues, being fully quiet by design on the issues facing importables.

Other bilateral and regional trade agreements

Other than the India-Nepal treaty, SAFTA is the most prominent agreement. Being also a regional cooperation initiative among neighbours, Nepal participates actively in the SAFTA negotiations and deliberations. But so far the SAFTA has not been of any significance for trade. Indeed, Nepal has not yet exported any goods under the provision of the SAFTA. The reason is simple - India is essentially the main market for Nepal in South Asia, and the market access provisions in the Indo-Nepal treaty are far superior to those under the SAFTA.

So an often raised question is why is SAFTA so prominent in the region? One reason is the importance given to the political process itself through the SAARC and its potentials for regional cooperation in a variety of areas. But for Nepal, SAFTA also has some trade significance – it is also seen as something like a strategic trade agreement which is there as a fallback agreement in case there are problems with the Nepal-India treaty and it stops to function.

The pros and cons of various trade agreements is a topic that attracts some attention from time to time. Thus, for example, in the case of the Nepal-India treaty, the question asked is net gains to Nepal, considering a) the constraints imposed on Nepal in pursuing independent trade policy for its agriculture and industry (the "negatives") and b) the free access to the Indian market on the one hand and the stability in food prices in Nepal due to the treaty, on the other (the "positives").

Although written from the standpoint of WTO compatibility of the Indo-Nepal trade treaty, and not an economic analysis, one study gets into the issue of alternatives to this treaty in case it is not found WTO compatible (Nepal 2004). The fifth option considered in that paper was terminating the treaty and trading with India under SAFTA, as the middle way between the Nepal-India treaty and a MFN regime with India. As SAFTA also provides preferential treatment to LDCs in the region (and importantly on a non-reciprocal basis), the study noted that a SAFTA that is sufficiently rich in non-reciprocal preferences might come closer to the current Indo-Nepal treaty on the preferences (and at the same time also WTO-compatible). Being non-reciprocal, such a trade relationship also gives Nepal some policy space for trade, pricing and protection policies. That was an interesting analysis because it looked into several options. Unfortunately, these ideas have not been subjected to economic analyses which would have provided estimates on relative gains and losses for Nepal of those options.

Next to SAFTA, BIMSTEC also attracts some attention in Nepal. Although there is also a trade component in it (there is a Trade Negotiating Committee), BIMSTEC is seen less as a trade agreement and more as a regional cooperation agreement, as its full name also indicates. It looks like it will be several years before the trade component of the BIMSTEC takes some shape for any commentary and analysis. But for Nepal, given the situation with SAFTA itself, it will be long time before BIMSTEC starts to become valuable as an agreement for market access.

Other than these, Nepal as a LDC is a beneficiary of the EU's *Everything but Arms* deal. An increasing number of developed countries and advanced developing countries are granting free market access to the LDCs (the "duty-free quota-free" or DFQF scheme). This is expected to expand further if the Doha Round agreement is concluded. This means that market access is unlikely to be an issue for Nepal, in contrast to other challenges such as generating surpluses for exports and meeting technical and quality standards.

Fixed exchange rate regime with India

Although Nepal adopted in the 1990s market-determined exchange rate regime for most currencies, it maintains fixed exchange rate to the Indian rupees. The pros and cons of this regime has also been a topic of some debate, the key ones being the impact on Nepal's trade competitiveness and inflation/instability in Nepal. As regards the former, the concern is that through changes in the real exchange rate, Nepal's competitive edge on exports to India, as well as in the domestic market itself, could be eroded over time. For example, during 2000-09, the wholesale price index rose by 76 percent in Nepal and 51 percent in India, thus eroding Nepal's competitive edge. Likewise, Indian productivity in agriculture and industry is also rising faster than in Nepal, again favouring India's competitive edge that cannot be corrected by changes in the exchange rate. For this reason, many analysts hold that a review of the pegged exchange rate system with India is necessary.

On the other side of the argument, also held strongly by many analysts in Nepal, is the worry that a flexible exchange rate regime with India will invite unbearable instability and uncertainty in the Nepalese economy, inflation being one of them. While this debates takes place from time to time, not much analyses on this topic is found in the literature. But then there is also an argument that points a compromise which is that the pegged or free exchange rate regime could be attempted gradually, implementing the changes step by step, and carefully monitoring the outcomes and responding to the negatives.

Food security

The link between trade policy and food security is a hotly debated subject all over the world. Trade policy impacts on food security through a number of channels, notably by influencing domestic food prices relative to those at the border. For political economy reason, most developing countries cannot afford to keep domestic food prices substantially higher than those at the border. Where trade policy has been used actively is for stabilizing domestic prices around some level. Economists typically do not favour using trade policies to protect a sub-sector or products so as to artificially maintain higher levels of self-sufficiency in view of the resource costs and other reasons.

Section 2.3 of the next chapter on mainstreaming briefly reviews food security policy of the government. It also notes that in many other countries, e.g. India, trade policy instruments like tariffs, quotas and export bans are used actively to regulate the import and export of food products with a view to maintaining price stability. Nepal's situation is different and does not seem to have this option in view of the porous border with India. Any attempt to regulate that trade, e.g. with some para tariff or other regulations, will only result into increased informal trade. This trade is substantive in general, and for several farm products as large as formally recorded trade (Karmacharya 2010).

Nepal's main food insecurity problem is lack of effective demand on the part of low-income households and not food availability in the markets (Pandey 2009, which is a study on trade policy and food security). Indeed, given the above constraint imposed by porous border, increased cereals production in Nepal, especially in the Tarai, does not necessarily lead to more consumption by food insecure households. In the 1960s and 1970s, Nepal used to export cereals to

India when also food insecurity was rampant in the hills and mountains. The food security chapter of the TYIP07 acknowledges this problematic when it states that at the aggregate level the country appears to be self sufficient in food production but then 55 of the 75 districts of Nepal are food deficit. This chapter does not say anything on the role of trade policy in food security issue and most of its 14 bullet points on strategies and 31 on policies and working policies are about production, marketing and safety nets.

There is some debate in Nepal on the extent to which the government should push cereals production in the Tarai and hills, e.g. through more research, irrigation, fertilizer subsidies. The alternative is to aggressively push cash crops and other high value products. If food insecurity is seen mainly as an issue of economic access, then it should not really matter what is grown, and the choice is obviously towards non-cereals and livestock which yield higher returns. The proponents of this view also argue that as long as there is effective demand, the porous border with India, and the Nepal-India trade treaty, will ensure enough food supplies in the Nepalese markets. In this view, the trade treaty and the porous border are the sources of price stability and assured supplies rather than a threat to Nepal's food security. There is also a counterview often heard in Nepal which is that food security is a matter of strategic importance and so Nepal should strive to maintain a certain level of self-sufficiency in foods, especially cereals, irrespective of the economics of food production. In this view, too much dependency on India, as well as in global markets, is fraught with risks as food supplies could be easily disrupted by political tensions with India, changes in the Nepal-India treaty and the global food crisis like that in 2007-08.

4. Trade policy formulation process

The process followed for the formulation of a trade policy matters greatly for its quality and so the process is receiving a great deal of attention in recent years. The best practice calls for an inclusive process based on stakeholder consultations. In Nepal, trade policy formulation is initiated by the MoCS. For this study, an attempt was made to understand the process for the previous two trade policies also (1983 and 1992). This was very difficult because hardly any record could be found in the MoCS, and so the only way out was to piece together a picture of the process through interviews with government officers and private stakeholders who participated in those exercises. Most of those involved were either retired or transferred, and were not in a position to fully recall how things were done. They were requested to recall, in particular, the process followed itself and the alternative policies/views considered and discussed before settling on the final document.

One official claimed that a committee was formed for trade policy in 1983 including private sector members, but this statement could not be verified from the private sector respondents. But both the officials and private respondents agreed that a committee with representation from both sides was formed for the 1992 policy formulation. Again there was no written record of any kind. One of the complaints from the private sector was that they were not really consulted on policy matters. They further felt that there is a strong "elite group bias" in the process, meaning that consultations, in an effective sense, get limited to a small elite from the private sector.

In contrast, being a recent work, much more information is available on the process followed for the 2009 trade policy. The formal process followed was as follows:

1. Within the MoCS in particular, the need for a new trade policy was felt for some time, and accordingly a decision was made in 2007 to move ahead; the MoCS requested the UNDP funded project, *Enhancing Nepal's Trade Related Capacity* (ENTReC), to assist in the process.
2. The ENTReC project provided in January 2008 a consultant, a former secretary of the MoF, to prepare the draft trade policy.
3. In the mean time, the GoN formed in August 2008 a five-member technical task force under the chairmanship of the joint secretary of the MoCS, and comprising of members from other GoN agencies and private sector. The task force's responsibility was to finalize the draft prepared by the consultant.
4. The consultant's draft policy was discussed in September and December 2009 with stakeholders comprising about 30-40 people from the private and public sectors. The records of these stakeholders meetings were *not* available for review.
5. In the mean time, the MoCS also requested for written comments on the draft from relevant public agencies and private sector (mainly FNCCI and NCCCNI).
6. None of the government agencies, other than the MoF, forwarded written comments. The MoF comments were limited to revenue and expenditure sides (e.g. seed subsidies, various incentives), and not on development issues. The views were incorporated following intense discussion.
7. Likewise, the FNCCI was the only private sector providing comments and suggestions. The comments were of general nature and lacked specificity. But the FNCCI was an active participant in the meetings.
8. Having incorporated the comments, the MoCS finalized the draft and forwarded in February 2009 to the cabinet of ministers for approval which approved the trade policy on 11 February 2009.

The above shows that there was a process of consultation followed, notably requests for written comments from relevant Ministries and private sector and the two stakeholder meetings. However, the quality of consultation was poor in both cases. On the former, most ministries and private sector agencies did not submit any comment, and those that sent something, the comments did not appear to be substantive. On the latter, hardly anything is known of the quality of the stakeholder consultations. Moreover, the process was not inclusive enough as several other stakeholders such as the CSOs, farmers association and cooperatives did not participate in the process. Even if some of them attended the two consultations, it must have been very difficult for them to provide substantive comments in such a short period of time, especially so when alternative positions and analyses were not provided to stimulate discussions.

It is sad that despite the growing popularity in Nepal of the process of stakeholder consultations, what was followed for the trade policy was highly inadequate. The main risk is that as alternative views were not solicited, debated and processed, the final policy document stands the risk of being either undermined (e.g. by other ministries) or revised and reversed when a new government – especially with a different political viewpoint on trade and development issues - takes over. In part, the weaknesses of the 2009 trade policy, discussed in more detail in the next two chapters, can be linked to the process of consultations followed.

5. Conclusions

The liberal trade policy regime adopted since the 1980's has focused primarily on addressing the bias against exports, reducing distortions in domestic markets and procedural and institutional reforms. The 1992 trade policy also continued on the same thrust. However, liberal trade policy, in an environment where the choice of policy instruments and pace of liberalization are constrained by both formal and informal trade relations with India, could not produce the desired results in terms of export growth and its diversification, agricultural development, industrialization and poverty reduction. At the same time, there were binding constraints on the supply side, as well as poor and underdeveloped infrastructures and, in the recent past, security and law and order problems.

The new NNTP09 takes into account the need for developing products of comparative and competitive advantages, establishing increased linkages between the export sector and domestic economy, improving inter-sector policy coordination, facilitating trade and developing trade related infrastructures and services, improving supply side capabilities and the exploitation of dynamism in international trade relations brought about by Nepal's membership of the WTO and RTAs. It also recognizes that export development is essential to sustained broad-based economic growth and poverty reduction in light of the small domestic market. Although the policy recognizes the need to establish increased linkages of the export sector with other sectors of the economy, it did not support explicitly the import competing sectors. The policy formulation process included stakeholder consultation but the process was not effective enough.

In conclusion, the following issues are considered to remain germane for trade policy.

1. The kind of trade relation with India on agriculture products.
2. The need for tariff rationalization for primary agriculture products *vis-à-vis* processed agriculture products and other industrial products.
3. The need for support measures in agricultural products, in particular the products identified by the 2009 trade policy for thrust areas.
4. The role of exchange rate regime in promoting agricultural exports.
5. The role of international trade in ensuring food security.

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Nepal - Mainstreaming trade policy

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1. Introduction

There is a renewed call for mainstreaming all important sectoral strategies and policies - such as national agricultural, industrial and trade policies - in the core national development framework, most notably the PRSP. In the context of trade, it is the trade policies that are to be mainstreamed. The recent initiative on Aid for Trade also makes a similar plea. Yet what exactly is this mainstreaming is not that obvious.

A commonly understood meaning of the term mainstreaming is that trade policies should be supportive of the core national development goals such as growth and poverty reduction. In a paper by UN ECA (UNECA 2004), the term is conceptualized as follows, "A working definition of the term mainstreaming trade policies in national development strategies involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals .... therefore, a deeper understanding of how trade policies can complement and reinforce policy actions across the board is an important step in achieving enhanced development results."

The key words are systematic promotion of mutually reinforcing policy actions, creation of synergies, and trade policies complementing and reinforcing policy actions in productive sectors. In this framework, trade policies and programmes need to support policies in productive sectors in a way that create positive synergies and avoid contradictions.

As other four case studies on this subject in this volume, a two-step approach is followed for the analysis. First, a reading is done of selected key national policy frameworks with a view to examine where and how trade and related policy issues are articulated and outlined (Section 2). Four policy frameworks are covered: trade, agriculture, food security and industry. Section 3 then discusses several cross-cutting issues with a view to improving trade mainstreaming.

The background works leading to this and other papers under the FAO trade policy articulation project were undertaken by a team of analysts in Nepal on the basis of literature review, data analysis and stakeholder consultations. About 10 national experts contributed to the background work and papers. Many brainstorming meetings were held with government officers and non-state stakeholders for their views on policy mainstreaming.

2. Trade-related issues in national policy frameworks

With a view to examining where and how trade and related policy issues in the context of agriculture and food security are mentioned and articulated, the following policy documents are reviewed: i) trade policy; ii) agricultural policy; iii) food security policy; and iv) industrial policy.

2.1 Trade policy

There are three documents that are relevant for trade policy:

1. Trade chapter in the Three Year Interim Plan, 2007-10 (GoN 2007, TYIP07 in short), the current PRSP.
2. Nepal Trade Policy 2009 (GoN 2009, NNTP09 in short), and
3. Nepal Trade Integration Strategy 2010 (GoN 2010a, NTIS10 in short).

Of these, the NNTP09 can be considered to be the main trade policy, also being more recent than TYIP07. The NTIS10 is more useful as an export strategy and for action plans, and so is discussed in more detail in the next chapter on trade support measures. Nepal-India trade agreement is also an important trade policy framework in view of its significance on Nepal's trade policy options.

First, on the TYIP07 as a PRSP. Nepal's PRSP differs from typical PRSPs of other countries. The TYIP07 is the 11th periodic plan and looks similar, in presentation and content, to previous plans, with numerous sectoral chapters. In contrast, for example, the Ghana and Tanzania PRSPs in this volume are formulated differently. Ghana's PRSP is organised around three pillars, with all economic growth and productive sectors covered under Pillar 1, which is an agriculture-led growth strategy. Other relevant sectors are brought in, but within this framework and in support of this central focus. In Tanzania's case also, the PRSP is organized around some desired "outcomes", with various sectors coming into the picture only in relation to their respective roles. In contrast, Nepal's TYIP07 comes into numerous sectoral chapters, one of them is on trade. As a result, maintaining synergy and avoiding contradictions (i.e. mainstreaming) is a much bigger challenge in Nepal's case.

As regards the overall development goal, the opening chapters of the TYIP07 and the sectoral chapters are consistent in that the main goals are economic growth, poverty reduction, inclusiveness, etc. The pervasiveness of "inclusiveness" as a goal in most chapters reflects the political changes that took place around 2006-07. There is little to comment on these goals except to note that the overall vision is consistent across sectoral policies.

The TYIP07's trade chapter begins by acknowledging that despite widespread economic and trade liberalization, income earnings and employment have not increased as expected. The reasons given are: i) limited industrial forward and backward inter-linkages; ii) limited utilization of local materials and inputs; and iii) low labour intensity in industrial activities. Also acknowledged is the geographical concentration of benefits from whatever trade did expand. This was said to be due to poor integration of export oriented industries with other sectors (agriculture, forestry, tourism, etc.) and the predominance of industries based on imported raw materials.

The challenge then is not merely whether Nepal's export trade expands but whether this trade is linked to the domestic resources and economy. There are several illustrations of Nepal's export trade surging up in the past, e.g. vegetable ghee to India, carpets, garments, handicrafts etc. and even acrylic yarn and copper products. There were reasons for this – in some cases driven by tariff differential between Nepal and India (e.g. vegetable ghee, acrylic yarn, copper, zinc oxide) and in others by special quotas, e.g. garments. In some other products, the comparative advantage is traditional skills, e.g. with woollen carpets and pashmina products. But these were also the industries that relied very heavily on imported raw materials. It is only in the case of agricultural products where exports were based on the Nepalese raw materials, e.g. tea, cardamom and ginger. The source of the strength of the handicrafts sub-sector was traditional skills but here too raw materials were mostly imported (e.g. metals, wool). The TYIP07 expresses a strong desire for changing the composition of export towards those that rely on local raw materials and resources as well as employment, so that trade contributes to poverty alleviation through linkages. It is against this goal that new trade policy need to be assessed.

The NNTP09 is Nepal's stand-alone trade policy. While the impression that comes out of trade policy in the TYIP07 is that the core concern is with fostering industry and trade strongly linked to domestic raw materials and resources, the NNTP09 gives an impression that the main concern is with expanding exports; the stated main objective is to raise the contribution of trade to economy, and through this to assist economic growth and poverty reduction.

A distinguishing feature of the NNTP09 is that it is a 100 percent *export* development policy. It is said in the background section that this trade policy is formulated with a view to rendering trade development sustainable by making export trade the principle basis for Nepal's trade policy. Accordingly, the NNTP09 does not address any issue on importables and import-competition. Why this is the case is not explained anywhere.

The NNTP09 comes with 13 policies and working policies, each with 8-10 points, for a total of 120 policy measures. These are all familiar policies and programmes many of which are also found in the TYIP07, as well as in trade policies of other countries. These include, for example, enhancing the role of the private sector, reducing transactions costs, providing various incentives, expanding market access through new trade agreements, establishing special export and economic zones, promoting services trade, developing human resource capability, and so on.

One other salient feature of the NNTP09 is fairly detailed product development programme, which amounts to one-third of the report. Identified products – 19 in total – are divided into two categories. Those in the first priority category, said to be products that are already established in export markets (plus also labour-intensive), will be developed as *Special Focus Area* products. These are garments, woollen carpets, *pashmina* and silk products, and handicrafts. Products in the second category are said to be those based on agriculture, forestry and handicrafts and with ample export potential. These will be developed as *Thrust Area Development* products. This category includes 15 products: tea, coffee, cardamom, ginger, vegetable seeds, lentil, honey, fresh vegetables, orange, leather, floriculture, herbs and oils, Nepali paper, wooden crafts and gems & stones. For each of these 19 products, the NNTP09 presents policies and programmes in 5-7 bullet points. In the case of the agricultural products, the NNTP09 also refers to Nepal Agriculture Perspective Plan or APP (APROSC–JMA 1995) and to recent agricultural policy, and calls for integrated development programmes.

The NNTP09 also makes provisions for various incentives to be provided to export-oriented industries and to exports. The next chapter on trade support measures discusses this topic in more detail. Briefly, these include dedicated funds (export promotion, product development, export guarantee scheme), infrastructures (export processing zones), subsidized loan, and miscellaneous facilities and incentives. These are also fairly well known incentive schemes. Unfortunately, not much is known about effectiveness of similar measures taken in the past as analyses and evaluation studies are rarely undertaken and published. In many places, these measures are stated in a general way, e.g. "will be facilitated", "will be encouraged" and so on, and so it all depends on what happens to implementation. Another comment worth making is the issue of the amount of resources that will be devoted to these programmes. There are a total of 19 priority products and if incentives involving cash and subsidy are given to all, these will be most likely distributed very thinly to be effective. How decisions are made in the coming years on these implementation issues (e.g. in budget speeches) are going to determine the effectiveness of these measures.

The NNTP09 has constituted a 23 member Board of Trade under the chair of the commerce minister for overseeing policy and implementation issues. The Board is represented by five other ministries, but – and strangely - not the Ministry of Agriculture and Cooperatives (MoAC) despite the fact that 9 of the 19 priority products are agricultural. This is not a good sign for mainstreaming.

2.2 Agricultural policy

How Nepal's agricultural policy defines the vision, strategy, policy and programmes matters greatly for trade policy given that so many agricultural products are designated as special products for export growth. Key agricultural policy documents are National Agriculture Policy 2004 (GoN 2004, NAP04 in short), agriculture chapter in three year plan (TYIP07) and Agri-business Promotion Policy 2006 (GoN 2006, ABPP06 in short). In introducing NAP04, it is said that it accepts the long-term vision and strategy of the 1995 APP but there has been a need for some reformulation in view of the recent developments like liberal economic environment, increased role for the private sector, and Nepal's commitments at the WTO and regional trade bodies. Its main objective is to contribute to food security and poverty alleviation through higher economic growth realized through commercial and competitive agricultural system. In the policy section, a total of 56 measures are presented under three policy categories: i) raising productivity and production; ii) developing commercial and competitive agricultural system; and iii) conservation and utilization of natural resources and environment.

Most of the policy measures and programmes are fairly general and well known. So what follows comments on a few selected measures of greater relevance to this paper. The NAP04 will continue pocket programmes, similar to that in the APP. Thus, a programme called Large Production Packets will be formulated under which infrastructures like roads, electricity, markets etc will be made available in an integrated way. Likewise, priority will be given to a programme for high value products along north-south and feeder roads, similar to the APP's programme for the hills and mountains. However, no specific criteria are specified to classify the products into high and low value. The NAP04 also provisions some incentive measures for private sector investment on commercial farming, processing and trade. This policy document also emphasizes import substitution, something the NNTP09 does not support, thus revealing an inconsistency in policy frameworks.

The ABPP06 further elaborates on some of the policies in the NAP04. It claims that it is formulated in order to provide momentum to agri-business promotion activities as per the NAP04's objective of "making products competitive in regional and global markets by developing the bases of commercial and competitive agricultural system". Its three objectives are: i) to assist market-oriented and competitive agricultural production; ii) to contribute to capturing domestic markets and export promotion by developing agro-industry; and iii) to assist poverty alleviation through agri-business. One innovation of the ABPP06 that is not found in the NAP04 is the idea of growth centres and special production areas. The following three Special Production Areas, which will be coordinated with the Special Economic Zones of the industrial policy, will be delineated for the purpose of launching special programmes: i) Commercial Crop/Commodity Production Area; ii) Organic/Pest-free Production Area; and iii) Agriculture Products Export Area.

Most of the rest of the policy measures in the ABPP06, which number 44, elaborate the features of the production areas, infrastructures to be developed, and support and incentive measures to be provided. Briefly, these are facilities like business service centres, markets and collection points, provision of physical facilities like rural roads, loans based on group collateral, insurance schemes, and so on. It also specifies some incentive measures, notably reductions in customs duties for equipments, relief on electricity tariff, lease of land and waiving of land ceiling. But note that all these incentive and tax rebate policies are "subject to their inclusion" in the annual budget, i.e. these are not guaranteed.

As in many other developing countries, Nepal also embraced market-oriented principles and policies during the 1990s, and as a result state interventions and controls were reduced considerably. The role of the public sector was seen as a facilitator for the private sector and for service provision. These positions have been adopted in all subsequent policy frameworks. Thus, the TYIP07 emphasizes the role of cooperatives, private sector and local bodies in agriculture and notes that agriculture is gradually transforming towards commercialization from subsistence systems, with an emergence of cooperatives, private and community organizations and the corresponding shrinking of the government's role in the provision of services.

The long-term vision expressed in the agriculture chapter of the TYIP07 reads as follows, "to modernize and commercialize the agriculture sector, by acknowledging the APP and the National Agriculture Policy 2004 as the central policy for the development of agriculture". In support of that, five specific objectives are listed as follows:

1. To increase agricultural production and productivity.
2. To maintain food sovereignty by ensuring food security.
3. To make the agriculture and livestock sub-sectors competitive by transforming subsistence agriculture into commercial agriculture.
4. To increase employment opportunities for rural youths, women, *Madhesis,* persons with disability, Muslims and deprived groups.

5. To conserve, promote and utilize agricultural biodiversities through the development and dissemination of environment friendly technologies.

These are fairly standard objectives found in agricultural policies in other countries also, and need little comment. The second objective above - food sovereignty – can be an anomaly in that depending on how one defines this concept, it can have implications for policy.[1] The TYIP07's agriculture chapter does not elaborate this concept, nor in the chapter on food security. Policies and working policies are elaborated next. These are expressed in 80 bullet points under 18 sub-topics. These are also mostly well known development goals and programmes and need little comment.

All development plans and agricultural policies since 1995 have presented the APP as *the* agricultural development framework for Nepal. The APP approach with its priority outputs and priority inputs is in a way similar to that taken in the NNTP09. A 2006 evaluation of the APP implementation (APP-ISP 2006) is therefore instructive for the future of the trade policy also. Among other things, the study noted that during implementation neither the required resources could be mustered nor the true spirit of the APP could be put into place (more on this in the next chapter). Various reasons have been given for the weakness in implementation. These include lack of specific action plans to implement the programme, the political disruptions and conflicts, and the adoption of a highly devolved governance system in around 1999 that required some design changes. Also importantly, the APP is a multi-sector national agricultural development strategy and so its success hinged very much on synergies and effective coordination from different quarters – foremost, from ministries other than agriculture (e.g. rural roads, electricity, irrigation), the private sector and the NGOs.

The above is an illustration of the many programmes of this nature that go down poorly because ministries other than the lead ministry fail to accord necessary priority and resources as initially envisaged. There is a risk that the agricultural part of the NNTP09 might also share the same fate as the APP.

2.3 Food security policy

Trade policy impacts on food security in various ways. In many other countries, food imports are regulated, or influenced, by trade policies with instruments like tariff and quota. In India and several east Asian countries, multiple trade interventions are used routinely to stabilize domestic food prices in the name of food security (Sharma and Morrison 2009). Nepal's situation is somewhat different in that due to

[1] See food security sub-section below and the chapter on Ghana's trade policy for further discussion of this concept.

the porous border with India, trade policies have limited influence on food prices and supplies. Imports of food products from India are duty free and there is not much that can be done on that. From time to time, Nepal has also announced export restrictions (mostly bans) to maintain food supplies. This works to some extent as formal trade is restricted and informal trade discouraged as transactions costs go up.

In TYIP07, there is a section on food security, within Chapter 6 called *Social Justice and Inclusion*. Reference is also made to the interim constitution 2007 that recognized food sovereignty as a basic human right. But what this implies is not explained. Among the challenges listed are raising income sources of vulnerable groups, increasing productivity in both agriculture and non-agriculture, and maintaining a balance between self-reliance and food import dependency.

As it is the case in many places in TYIP07, statements made are not always clear and at times inconsistent. For example, the vision calls for ensuring food sovereignty right of *every individual* while the main objective aims at making the life of the *targeted people* healthy and productive by "improving national food sovereignty and food and nutrition situation." Note a contradiction here – the vision targeting *every* individual while the objective speaking of *targeted people* (unless this refers to all Nepalese as the target group).

Also note an odd argument made. In the objective part, food security of individuals is said to be ensured *by improving* national food sovereignty. What is this national food sovereignty is not defined anywhere (note that the vision speaks of individual food sovereignty), but presumably this refers to high levels of self-sufficiency, because this is explicitly said in one of the objectives - to increase national self-reliance in basic food products. Indeed, this write-up itself is muddled because ensuring food security for targeted population groups does not necessarily require high level of national food self-reliance. Put together, it seems that the operational definition of national food sovereignty is higher self-reliance (how high?), which is not a well articulated view. Nepal's food self-reliance is already very high and this is acknowledged in the section on problems and challenges of the agriculture chapter, "although at the aggregate level the country appears to be self sufficient in food production, 55 districts are still food deficit."

In view of the above, one conclusion is that there is a need for clarifying the concept of food security in Nepal's context, as well as that of food sovereignty as this has implications for policy.

Next in that food security section, there are a total of 14 bullet points for strategies and 31 bullet points for policies and working policies but do not provide any indication of priority and guidance to resource allocation. There are also hardly any policy measures that are trade-related and so obviously there is no possibility of any contradiction with trade policy, which incidentally also does not address any food issue. The objective of raising incomes in agriculture and non-agriculture as a way to address food insecurity is consistent with the same objective stated in trade policy.

As regards synergy/contradiction, the above discussion points to two problems. First, trade policy should have addressed food issues. India is the main source for cereals and other basic foods for Nepal at the margin and during an emergency. This trade is free under Indo-Nepal trade agreement but gets disrupted when India implements export restrictions, as in 2008 and continued to 2010. In addition, India could also restrict the export of food items that it considers subsidized to consumers in India. For reasons like these, there is some apprehension in Nepal on full reliance on India for food import. This is a trade issue and could be handled from within the Indo-Nepal trade treaty, e.g. with some provisions that secure the supplies. There could be other trade issues on foods and other importables that might require similar attention. The TYIP07's food security chapter could have raised these as issues and then expect trade policy to contribute to resolving them, but it did not. Likewise, trade policy could also cover issues on foods and importables, rather than ignore completely these ground realities as is the case now.

2.4 Industrial policy

Industrial policy is relevant here because agro-industry is the backbone of industrialization and the objective is to export processed, value-added products. The TYIP07 has a stand-alone chapter on industry (Chapter 14). A new industrial policy has also been released in 2010 – Nepal Industrial Policy 2010 (GoN 2010, NIP10 in short). The TYIP07 enumerates many well known problems facing industries in Nepal, e.g. land-locked position and high cost, infrastructures, small size of the market, supplies of raw materials, electricity, political instability, strikes, closures, and so on. In the TYIP07, industry is referred to in a general way, "micro, cottage and small industries", without any differentiation among the three categories – if any. This gives the impression that all policies (e.g. incentives) apply to all types of industry without differentiation (e.g. among cottage, small, medium or large).

The TYIP07's industry chapter could also have referred to the agriculture and trade chapters on policies on issues like priority industries and incentive measures (just as well these other two chapters could have done that). Instead, the issue of priority industries is left open when it says that sectors and products of comparative and competitive advantages will be identified, and, further, in reference to the programme, "to help dynamic industrial development by enhancing industrial linkages, and to promote investment by identifying high priority industries." This is the same promise made in the agriculture and trade chapters of the TYIP07.

At the same time, the chapter mentions in various places the need for promoting (as written, "with extra emphasis") industries that use local raw materials and thus contribute to jobs and poverty reduction. But this is left vague, i.e. it is not clear how industries will be categorized for the purpose of "special treatment" and what are the elements of this special treatment (e.g. incentives).

While trade policy is mostly quiet on importables, the industry policy acknowledges the problem of import competition. It says that this competition will be managed through customs duties, anti-dumping duty and equalizing/ countervailing duty and competition provisions. On importables, one issue is the structure of tariff protection, namely whether it should seek selective protection, have low and uniform tariff, or an escalated structure. Neither the trade nor the industrial policy provides any guidance on this important issue. This issue is also linked to the use of domestic raw materials, which is stressed so much by all policy frameworks in their preamble sections but ignored subsequently in policy sections.

The NIP10 also makes provisions of several incentives to industries, such as the following:

- Reimbursing of customs and excise duties on imported raw materials, upon export, to industries selling their products to an Export Promotion House.
- Utilizing revenues from customs and excise duties on the production materials of intermediate goods for the production of exportable industrial goods.
- Adjusting (providing relief) customs and excise duties when an industry producing intermediate goods sells its products to other industries producing finished goods.
- Reimbursing excise duties if any other industry utilizes locally available raw materials, chemicals and packing materials, etc. on which excise duty is imposed.

Similar incentives are also announced in NNTP09, discussed further in the next chapter. These are fairly well known incentive schemes also found in industrial policies of many other countries. The basis for the incentives in the NIP10 is not known, nor is there any study in public domain commenting on the effectiveness of similar measures in the past. Not only is there a need for explaining why and how these measures will be effective, there is also a need for coordinating such policies across the three main sub-sectors – trade, agriculture and industry – because at the end of the day most of the products being targeted will be same.

As a last but important commentary, the NIP10 has constituted a 20 member Industrial Promotion Board under the chair of the industry minister for implementing the policy. The Board is represented by nine ministries, but not the MoAC – similar to the case with the Trade Board. This is very strange and almost by design undermines mainstreaming agriculture, industrial and trade policies.

3. Cross-cutting issues and concluding remarks

This paper reviewed in Section 2 key policy frameworks from the standpoint of mainstreaming agricultural trade policies, defined as a process whereby related policies and programmes are mutually consistent, create synergies and avoid inconsistencies. The review also included some commentaries on the policies. This section summarizes, also as concluding remarks, some cross-cutting issues on trade mainstreaming.

The policy papers show considerable consistency on vision, goals and overall policy orientation

Although there are several issues noted below, the policy papers show, on the whole, a great deal of consistency when it comes to the vision, goals and orientation. Thus, they all begin with some common objectives like contributing to economic growth, poverty reduction, and inclusive development. Likewise, all policy papers emphasize on market-orientation, liberal economic and trade policies, much reduced role for the state, and much stepped up role for the private sector, including cooperatives. There is also a shared desire for prioritization – focussing public resources and efforts to growth clusters and priority products. There is a notable strategic shift in emphasis from a predominantly production-focussed programme to one that addresses issues throughout the value chain – driven by market demand and export. There is a renewed debate taking place in Nepal, reflecting the large centre-left polity, on the role of the state in industry and agriculture. While this might influence some programmes and public spending, depending on which party leads the government, it is unlikely that the above policy paradigm and orientation will be reversed.

Objectives and scope of trade policy – the NNTP09 is an export policy, not a complete trade policy

Perhaps being a part of the PRSP, the fundamental concern expressed in the trade chapter of the TYIP07 is with the "quality" of trade - the desire to change the composition of exports towards products that have large economic linkages with domestic economy and raw materials and thus contribute to broad-based growth and poverty alleviation. This objective is consistent with the overall goals of the TYIP07, including "inclusiveness". The NNTP09 also alludes to these goals, but the extent of the concern expressed seems to be much lesser than in the TYIP07. The main stated objective of the NNTP09 is "to assist economic growth and poverty alleviation by raising the contribution of trade to national economy".

Although this shift is emphasis in noticeable in the NNTP09, the two documents are more or less consistent in focus or emphasis on export as the way ahead. Both see trade as being *export*, as issues on importables are not addressed at all. All 19 priority products in NNTP09 are export products (the TYIP07 does not get into this issue). The other recent trade policy document, the NTIS10, is also fully focussed on export products.

In contrast, the TYIP07 chapters on agriculture, industry and food security (and their stand-alone national policies) present a more balanced treatment of the two sides of trade. The NNTP09 does not say why it focussed fully on the export side only, as there are also issues on importables that a national trade policy needs to address. As an example, food supplies in Nepal, price stability and food security are influenced heavily by Indian trade policies and practices, and there are several issues there, some related to Indo-Nepal trade treaty. These need to be addressed by a trade policy. Likewise, the use of domestic versus imported raw materials by industries in Nepal – an issue that is given so much attention by the TYIP07 – is also influenced by the structure of import tariffs (see below), and should have been addressed by trade policy.

On identifying priority products and sub-sectors for special treatment

It was noted in Section 2 that while the TYIP07's trade chapter does not list focus products, the NNTP09 does list 19 export products. The NTIS10 also lists 19 products and services, but only eight products in the NNTP09 appear there, excluding 11 others (discussed in more detail in the next chapter).

Many national trade policies around the world list selected products for special treatment for the simple reason that resources are scarce and need to be focussed on priority areas. So the approach taken by the NNTP09 is consistent with these practices. But an analysis of the documents raises some questions. First, the documents do not explain how these 19 products (and 23 in all including the list in NTIS10) were identified (presumably through internal consultations – see below). Second, one could ask if 19 are too many or just about right, but the answer to this depends on the first question. Third, industry policy also has a list of national priority industries in its Annex 1 which covers almost everything in agriculture, essentially undermining the very notion of priority (although one might say that for this reason all NNTP09 products are covered there). Fourth, NAP04 does not have such a list, although some products are identified in the agriculture chapter of the TYIP07.

From the mainstreaming standpoint, it would have been desirable that all policies share a common list of national priority products for the maximum effectiveness of resources and efforts. The success of the NNTP09 on the agricultural side will largely depend on what happens to supply-side, infrastructures and processing – all of which essentially fall under the mandates of the agriculture and industry ministries. As discussed in Section 2, the APP had taken this approach in designating 6-7 products as priority commodities. The APP was owned by the MoAC and yet did not turn out to be as effective because resources were not channelled to the priority outputs as planned, notably by non-MoAC agencies. In view of this experience, there is no assurance that this time the MoAC will own the action plans listed for agricultural export products in NNTP09, or in NTIS10. The MoAC has a broader mandate, including for the more important food products and importables, and is unlikely to feel the same high priority for the export products. This is the impression that came out in background consultations undertaken for this paper.

As a small point relevant here, all policy frameworks have something to say about the principle of "comparative advantage", typically stating, "sub-sectors and products of comparative and competitive advantages will be identified." This might be a correct statement to make in the case of agricultural policy, but that is also said in other policies where special products are *already* listed and action plans drawn, notably in the trade policy, and to some extent in the industrial policy also. It is not clear in what sense this economic principle has been understood.

The goal of increasing the use of domestic raw materials by export-oriented industries

The TYIP07's trade chapter identified as a serious challenge the limited industrial forward and backward linkages, including low utilization of local materials and inputs. One 2004 study that analysed precisely this issue (Upadhyaya 2004) had noted that domestic sourcing of raw materials by agro-industries fell from 72 percent in 1991/92 to 47 percent in 2001/02. Many industries in Nepal such as *vanaspati ghee*, tobacco, brewery, noodle, carpet, garment and *pashmina* depend heavily on imported raw materials. This is so for many reasons such as small scale and scattered pattern of production, lack of contract and cooperative farming and marketing practices, higher cost and poor quality of domestic raw materials, informal exports, and a mismatch of the timing of production and demand. There are also some trade issues. One is import tariff structure – the significant degree of tariff escalation whereby raw materials face none or little tariff while tariffs are higher on processed products. While the rationale for this policy is to encourage domestic processing industries, this also discourages the use of local raw materials. Rationalizing tariff structure to encourage the use of local raw materials is a difficult task, involving a trade-off between protecting primary agriculture versus processing industries. Export policy is also relevant here – whether or not to restrict the export of raw materials for the sake of local industrial use, e.g. in hides and leather, but this could well be for other products also such as ginger and cardamom.

On import substitution, this is not a favoured policy generally, and many trade policies around the world do recognize that message. Nevertheless, they do acknowledge that trade policy has a role to play in ensuring that domestic industries remain competitive, and do support prudent and limited protection to be granted selectively. In Nepal's case, the NNTP09 is quiet on import policies. On the other hand, both the agriculture and industry policies do expect some trade protection, and in this sense there is some inconsistency across the three policies. There is a dearth of analyses as well as public debates in Nepal on this important issue. It is also not clear if the position taken by the NNTP09 is based on some analysis and debate, e.g. during stakeholder consultations.

Effective stakeholder consultations as the way forward

Stakeholder consultations are now the norm rather than exception. Typical consultations on government programmes and policies include government officers, private sector (mostly represented by FNCCI), civil society and experts. All policy papers reviewed earlier are said to have gone through this process. Inter-ministerial committees or *ad hoc* task forces can also be taken as part of this process.

The effectiveness of such meetings was one of the issues addressed during the background work for this paper. There were different views, with some considering the process as effective while others taking the meetings as mere formalities or perfunctory. The main conclusion was that such consultations are absolutely essential for a variety of reasons including to ensure that different views are heard and discussed – a big plus for improving on mainstreaming. Two issues in particular were prominent, and they are related. One is that in the case of the inter-ministerial meetings, ministries or agencies other than the lead ministry do not participate effectively in discussions. This happens for a variety of reasons such as limited interest on the subject, lack of familiarity due to poor preparation, lack of background analyses on issues discussed (highlighted below) and discussions being more hierarchical than knowledge and information based. In view of the importance of such consultations, some efforts are needed to improve their effectiveness.

In some cases, relevant ministries are not even involved to start with. Interviews for this paper revealed that the participation of the MoAC was either nil or limited in the formulation of the NNTP09 and NIP10. Perhaps reflecting that, the MoAC is not even represented in the high level Boards created in the NNTP09 and NIP10. And yet, the MoAC commitment is so vital for the success of both these policies. Earlier in 2003 also, the MoAC was not represented in the Steering Committee that oversaw the preparation of Nepal's trade competitiveness study.

On the design of a PRSP - a traditional development plan or a different format?

Nepal's PRSP, the TYIP07, is a collection of sectoral chapters, the same format as the previous development plans. This differs from most recent PRSPs in other countries. For example, Ghana's PRSP is designed around just three pillars, with "agriculture-led growth strategy" as the core and main theme under its Pillar 1. Various productive sectors contribute to that single goal, including trade policy. This has the advantage of not only giving focus but also ensuring synergies. In contrast, it is difficult to ensure that synergy where there are 15 or so separate, stand-alone sectoral chapters. For the future, thus, there are two options: change the way a PRSP is designed, or significantly strengthen the role and capability of the National Planning Commission to ensure that synergy and focus. It came out during background consultations that, while formulating a plan, significant adjustments are often made to the sectoral papers at the very last moment of a process that already suffers from delays. As a result, cross-checking suffers considerably, resulting in many inconsistencies in the final versions.

A related problem in reviewing the policy documents is their duplication. For example, for each area covered (trade, agriculture and industry), there are two documents – the sectoral policies and the chapters in the TYIP07. They are not always consistent with each other. This also points towards choosing the first option above, i.e. rather than a conventional plan, do the PRSP in a different way (as in Ghana, Tanzania) and then issue stand-alone policy documents separately.

Dearth of policy studies, analyses and evaluation

Even where all relevant officials and experts are represented, the quality of a consultation depends a lot on its preparation. One important element of that preparation is availability of background notes and analyses on the issues being discussed. On this, the record is said to be very poor. An attempt was made in the course of the background work to find some examples of analyses of options used in such consultations, e.g. when changing customs tariffs, or ascertaining rates of incentives or subsidies. The general impression gained was that these issues get discussed at inter-agency (or broader stakeholder level) meetings and decisions taken (Tiwari 2010). But there is no tradition of preparing evidence-based analysis or briefs on various options, nor of disclosing the background notes, if any, in the public domain. So it is very hard to know the basis for the decisions taken.

Outside of these more formal (and internal) processes, there is also a serious dearth of analyses on policy issues. For example, not a single study could be found that analysed the effectiveness of various incentive measures for industries and export. The government has for some years schemes to grant incentives to exports, e.g. through Nepal Trade Promotion Board, but little is known about their effectiveness through analyses available in the public domain. Thus, there is really no basis to say, for example, whether a tax relief of 30 percent, or 50 percent, is needed to ensure that it is an effective incentive for a private entity to invest on a cold storage. Yet, similar measures are announced time and again in national polices.

A considerable amount of analytical work was undertaken for preparing the 2003 trade diagnostics study (GoN 2003) and over a dozen background studies were prepared. In a repeat of the sad state of affairs, these background studies are not available anymore for reading and reference.[2] It is not clear if similar background works were done in preparing the NNTP09 and NIP10 although a claim has been made that this was done also for the NTIS10. If undertaken, these were not available for review. Such studies could have shed light on the final policy choices made. For example, it would be of interest to find out why the NNTP09 decided to focus on the export trade only, and leave out completely all trade issues on importables. It is also possible that such a position came out of the stakeholder consultation process, but then the records of those meetings are not easy to find. It would have been interesting to know if the MoAC and industry ministry raised in such meetings such issues because their own policies do address some concerns with import-competition.

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Nepal – Articulating trade-related support measures for agriculture

Madhab Karkee and Jib Raj Koirala

1. Introduction

That Nepal – a landlocked and least-developed country with almost two-third of the land area being hills and mountains – faces many challenges in building its productive capacities and infrastructures is well known. These are critical requirements for trade competitiveness. In addition, there are many challenges on improving soft infrastructures like policies, institutions and regulatory frameworks. This is a long list and a difficult task, and will require lots of resources and time. This will also require a sound process for articulating support measures and prioritizing them.

It is for this reason that this study on trade support measures was conceived within an analytical framework that also included related studies on trade policy issues and trade policy mainstreaming, discussed in the previous two chapters. The background work that contributed to this chapter consisted of literature review, brainstorming sessions among consultants engaged with the FAO project, and with government officers and broader stakeholders. Relevant national policy documents, mainly covering trade and agriculture, were reviewed and used for the consultations. Insights were also gained from several current and retired government officials who were involved in the policy processes in one way or other.

The primary focus of this study is on the *process* of articulating trade-related support measures (TRSMs). Accordingly, Section 2 reviews current practices for articulating TRSMs and implementing them, covering both the more traditional trade-related topics and agriculture-specific support measures. Section 3 concludes with some commentaries on some issues identified in Section 2.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Current practices for identifying trade support measures

This section is divided into two parts. The first sub-section analyses some trade policy documents, notably those that are primarily geared towards the identification of TRSMs. These are: i) national trade policies (Three Year Interim Plan 2007-2010 and 2009 trade policy); ii) Nepal Trade and Competitiveness Study, 2003; and iii) Nepal Trade Integration Strategy, 2010. It also reviews the IF/EIF process. The second sub-section focuses on agriculture and provides a flavour of how agricultural projects are identified and formulated within the process led by the Ministry of Agriculture and Cooperatives (MoAC).

2.1 The process of articulating support measures in the area of trade

Trade policies – three-year interim plan and 2009 trade policy

The Three Year Interim Plan 2007-2010 (GoN 2007, TYIP07 in short) is Nepal's PRSP. Its Chapter 15 covers trade and provides vision, strategy and policy guidelines. Subsequently in 2009, a new national trade policy was released (GoN 2009, NNTP09 in short). Both these documents were reviewed in the previous two chapters from the standpoint of the themes addressed there, and so the commentary below will be brief and focussed on TRSMs. The TYIP07 begins by identifying a number of weaknesses of a structural nature in the trade sector of Nepal, and thus where efforts need to be focussed on. These include: i) limited forward and backward linkages of export-oriented industries; ii) limited utilization of local materials and inputs; iii) low labour intensity of industrial production; and iv) regional and geographical imbalance in the distribution of export industries and benefits from trade.

These challenges are well articulated. They point to the need for a fundamental rethinking on trade policy. These imply that it is not just enough that Nepal's total volume of export trade expands but what matters is the composition of that trade, towards products and sub-sectors that are more closely linked to domestic resources and economy. Indeed, several of Nepal's top exports in the past two decades or so can be considered to have weak linkages with rest of the economy. Some of these thrived with India as the sole market because of substantial differences in raw material tariffs between India and Nepal (e.g. vegetable *ghee*, processed metal products). But this is changing fast as India has been reducing its own tariffs. Likewise, garment industry was another sector that thrived on the back of market access quotas under the multi-fibre agreement, which no longer exists now. The strength of some other industries lies on Nepal's traditional skills, a comparative advantage, and will remain robust even though such industries may be heavy users of imported raw materials (e.g. carpets, handicrafts made of metals). Most of the rest of the export products are agricultural and based on domestic products and raw materials, e.g. tea, cardamom and ginger. In these cases, the issue is lack of processing and value addition. From the preamble part of the TYIP07, it is clear that there is a strong desire for changing the composition of exports along this line so that trade can contribute to growth and poverty reduction.

As regards TRSMs, the TYIP07 presents many policies and programmes, in 27 bullet points. One category of these support measures is trade and economic policies, on which the following points are stressed: maintaining liberal, competitive and market-oriented foreign trade regime, promoting exports of products linked to domestic resources, supporting value addition, and appropriate structure of incentives for export-oriented and supporting industries. Then there are proposals for establishing trade infrastructures, such as special economic zones, export processing centres and industrial clusters, industrial villages, dry ports and link roads. A third category of support measures is grants and incentives for developing and operating these infrastructures when linked to export, e.g. export-oriented Industrial Development Fund and continuing with the Export Promotion Fund. Finally, there are several measures related to regulatory and legislative frameworks and laws (e.g. product standards, TRIPS-related brands and GIs, Competition Act, trade remedy measures, etc).

The NNTP09 essentially follows-up on these strategies and policies. The one major difference is that it goes on to identify 19 specific export products for special attention. A similar approach has also been taken in another important trade document, the 2010 trade integration study. In view of the centrality of these works for the theme of this paper, these initiatives are discussed below in some detail, along with the IF/EIF process within which these works were undertaken.

Nepal trade and competitiveness study 2003 (NTCS03)

The process of preparing the NTCS03 began in 2002 with the GoN requesting the WTO IF Working Group to undertake a DTIS as the first step in the IF process. Several background studies were done during the second half of 2002. The work was guided by a National Steering Committee appointed by the GoN under the Chairmanship of the Secretary MoICS.[1] The Steering Committee included representatives from government agencies (the MoCS, MoF, NPC, NRB, and from private sector bodies like the Chambers of industry and commerce and academia). The report was finally discussed at a national conference chaired by the Vice Chairman of NPC and was finalized after incorporating comments, and subsequently approved by the GoN in October 2003.

Bulk of the NTCS03 was devoted to addressing various cross-cutting issues vital for productivity growth and competitiveness, such as trade facilitation (customs, transport), regulatory frameworks, FDI and labour market. Only one chapter addressed product- and sub-sector-specific issues (Chapter 8), covering carpet industry, garments, tea processing, agriculture, tourism and hydropower. In agriculture, aside from tea, "rest of the agriculture" was discussed as one sub-sector, addressing constraints and opportunities.

The topics addressed by the NTCS03 can be grouped into two categories: i) policy, institutional and regulatory reforms of a general nature (e.g. customs and labour market reforms, trade facilitation, policy coherence); and ii) measures specific to products and sub-sectors covered. It specified responsible units also, e.g. policy reform measures to be carried out by the GoN and a variety of assistance to be provided from outside, notably the six IF agencies. The NTCS03's Action Matrix had a total of 31 projects and 60 different activities, with time-bound commitments (five of immediate terms, four short-terms, 20 medium-terms and two long-terms for technical assistance).

A considerable amount of analytical work was undertaken for preparing the NTCS03, involving many national and outside experts, led by the World Bank staff and consultants. Over a dozen background studies were done on subjects ranging from sector studies, trade policy, institutions and trade treaties, investment climate, trade performance and price competitiveness, labour and land markets, poverty analysis to macroeconomic update and WTO accession. In a repeat of the sad state of affairs in this area, these background studies are not available anymore for reading and reference.[2] This in itself is an important lesson for future collaborations like this as much knowledge base is simply lost and out of reach of the Nepalese researchers.

[1] The following illustrates how difficult it is to manage a programme like this - during the duration of the study, the there were three successive transfers of the Secretaries in the MoCS and so there were three different chairmen of the Steering Committee.

[2] According to the MoCS officers interviewed, neither the MoCS ever asked the World Bank to submit the background papers, nor did the World Bank itself submit the papers to the MoCS.

On the implementation status of the Action Matrix, while some progress has been made, the overall implementation remains unsatisfactory. As of August 2009, out of 60 activities in the matrix, eight have been completed, the process initiated for 26 others, 14 are partially implemented and 12 activities were yet to begin for various reasons. Some of the activities also became irrelevant, e.g. garment quota allocation after the lapse of the multi-fibre agreement (MFA) in 2006.

One criticism of the NTCS03 formulation process was total absence of the MoAC in the Steering Committee formed to guide the study despite all that is said about the importance of agriculture. There are some views on this. One is that the MoCS traditionally does not consider that the MoAC has anything to do with trade. Thus, MoAC participation was not considered essential, nor an useful contribution expected. Another view is that this merely reflected lack of interest on the part of the MoAC on trade issues, primary production being its main mandate. As a result, it is generally felt, *ex post*, that agriculture was undermined by the NTCS03. Agriculture sector, despite its declared lead role in the economy, was identified by the NTCS03 as only a "potential" growth sector while hydropower – with hardly any trade - was identified as a "key" sector. Indeed, it is said now that participation of other ministries in the NTCS03 process was also very poor, essentially reducing it to a one-ministry effort. Even on this, many hold that the entire work was conceived, led and executed by donors and outside consultants, with the MoCS staffs essentially playing no role on policy and technical matters.

The IF/EIF process

Nepal's involvement with the IF process began in the early 2000s with an agreement to conduct the above said DTIS (NTCS03). At the same time, a project funded by UNDP under the IF Window I was implemented with a small budget of USD 38 000 for activities like training, seminar, study tour and knowledge sharing. Subsequently in January 2005, a larger project (USD 665 000) under IF Window II was approved to implement various recommendations of the NTCS03. It was designed to assist enhancement of institutional capacities, improve trade facilitation, strengthen SPS, TBT and TRIPS enquiry points, and establish an export financing mechanism. These activities were continued until 2009 under a new project, Enhancing Nepal's Trade Related Capacity (ENTReC), as part of the IF with the support from UNDP.

In May 2007, a package of recommendations was adopted at the WTO to start the implementation phase of the EIF, with the IF core agencies agreeing to increase their contribution to the IF Trust Fund. At the same time, the GoN was also engaged in strengthening its institutional arrangements so as to benefit from the EIF. Accordingly, a National Steering Committee (NSC-EIF) was formed in June 2008 for implementing the EIF activities. It is chaired by the Chief Secretary of the

GoN and represented by Secretaries, high level officials from the relevant agencies and private sector. At its second meeting, the following Inter-ministerial Technical Committees (IMTCs) were formed to strengthen national implementing mechanism:

1. Agriculture, Agro-industry and SPS, chaired by Secretary, MoAC.
2. Private Sector Development (Manufacturing, SMEs, SEZ/EPZ and TBT), chaired by Secretary, Ministry of Industry.
3. Legislation and Intellectual Property Rights (IPRs), chaired by Secretary, Ministry of Law and Parliamentary Affairs.
4. Services and Taxation, chaired by Secretary, Ministry of Finance.
5. Cross-Cutting Issues and Trade-related Infrastructure Development, chaired by Secretary, MoCS.

The IMTCs will be represented from the government and private sectors. Each technical committee will be responsible for designing project proposals in its area of competence. These proposals will be submitted to the NSC-EIF for final approval. The committees can also form Technical Sub-Committees when required. Recently, a National Implementation Unit (NIU), as a management unit of EIF, has also been established at the MoCS. The GoN has appointed the Secretary of the MoCS as the EIF Focal Point, making the person responsible for all EIF activities. The NSC-EIF has asked the focal person to take lead, discuss issues with local development partners and report back to it. Other developments include the designation of a donor facilitator for which UNDP was selected at a donors meeting in December 2008, replaced by Germany at a similar meeting in November 2010.

The 2010 update – Nepal Trade Integration Strategy (NTIS10)

The NTIS10 is considered to be the follow-up to the NTCS03 and claims to take into account new developments in the domestic and international scene. Its focus is fully on export trade and discusses capacity building priorities, cross-cutting issues and actions. It is also seen as a framework for operationalizing the AfT within the EIF framework, as well as a single shared strategy to guide the efforts of the GoN, the private sector, development partners and all other stakeholders. Almost half of the NTIS10's 58 page document is devoted to specific actions – first as cross-cutting issues in Action Matrix I and then recommended actions for 19 potential export sectors in Action Matrix II, these also being the features of a typical DTIS.

If the GoN were to follow the approach taken of focussing resources to identified priority products, as recommended in the NTIS10, as well as in the NNTP09 and in agriculture (e.g. in the APP, discussed below), the selection of these products becomes an important issue. As discussed below in the agricultural section, where ministries tend to list priority products differently in their own policy frameworks, efforts will be diluted. For this reason, some discussion of this topic is pertinent here.[3]

It was only one year before that the NNTP09 identified a list of products and sub-sectors for special attention. By some strange coincidence, both list exactly 19 products. But there is a big difference – only eight products in NNTP09 are included in NTIS10, with 11 others excluded (Table 1). And then, seven sub-sectors are added in the NTIS10 that are not in the NNTP09. Four new products have been identified in the NTIS10 – noodles, silver jewellery, iron & steel and wool products (and the seven services sub-sectors). All in all, there are 30 products and sub-sectors in the two policy frameworks.

TABLE 1:

Products and sub-sectors identified for development in two policy frameworks

Product/ sub-sector	2009 Trade Policy	2010 NTIS	Product/sub-sector	2009 Trade Policy	2010 NTIS
Garments	√		Herbs and oils	√	√
Carpets	√		Local paper	√	√
Pashmina	√	√	Wooden crafts	√	
Handicrafts	√		Gems & stones	√	
Tea	√	√	Noodles		√
Coffee	√		Silver jewellery		√
Cardamom	√	√	Iron/steel		√
Ginger	√	√	Wool products		√
Veg. seeds	√		Tourism 1/		√
Lentils	√	√	Labour1/		√
Honey	√	√	IT1/		√
Vegetables	√		Health1/		√
Orange	√		Education1/		√
Leather	√		Engineering1/		√
Floriculture	√		Hydropower1/		√

1/These are services sub-sectors
Source: NTP 2009 and NTIS 2010.

Even ignoring the services sub-sectors, this difference in the two lists can create some difficulty in implementation. For example, substantive product development responsibilities fall under the MoAC and MoI and not the MoCS. But then, which list should they use in allocating resources, given that resources are limited? It is not

3 It is very common to find in national trade policies across the developing world a list of such products (strategic, lead, priority, special) identified for special treatment. This also mirrors the approach in the WTO of designating some products as being special and sensitive. This is an important issue because resources are scarce and have opportunity costs.

clear why prominent products with export potential like coffee and leather were dropped out in the NTIS10. It is said that these 19 goods and services sectors were identified in order to meet the stated objective of "expanding an inclusive export base" on the basis of an initial assessment of export performance and extensive discussions with Nepalese business community and government officials. So these were the bases for the listing. But why this list differs from that in the NNTP09 is not said anywhere.[4] It is also said in the NTIS10 that five other products/sectors also emerged as possible export potentials from the fieldwork, but are not pursued for now (sugar, cement, dairy products, transformers, and transit trade service).

Table 2 provides an idea of the range of actions recommended in the NTIS10 for the targeted agricultural products. For five such products (cardamom, ginger, lentils, honey and tea), a total of 55 actions are recommended.

In a way, the actions recommended are generally well known, but given that this is the main theme of this paper, some commentary is useful. First, the list of actions is fairly comprehensive, ranging from strengthening value chains to creating brand names. Second, while some of them are relatively easy to implement (e.g. organizing stakeholders' associations), others are difficult in terms of time and cost, e.g. the systemic problems of R&D, technology and agronomy. As an example, it has been well known for many years that honey export suffered from pesticide residues, among others, but it is exceedingly difficult to ensure that no pesticide is used in the area where honey is produced. Third, the NTIS10 merely recommends the actions without getting into the question of why even the easier among them have not been implemented all these years. As an example, the problems confronting the tea sector are well known and many papers on tea have been listing the same actions for several years now (e.g. Thapa 2004). There is no reason why things will be different from now. It would have been useful if NTIS10 was accompanied by background papers explaining why even simple, well-identified things do not get done for years.

Fourth, and for the same reason as above, there are serious doubts about the implementation of some of the actions related to policy change (as against those requiring investment). An example is the removal of local taxes when goods are transported within Nepal, or that on a position on export restriction (tax, ban) of lentils and other foodstuffs. And lastly, many of the actions listed as provision of "incentives" for attracting private sector investment in capital and technology (e.g. for product diversification – # 5 in Table 2) are both uncertain and vague. In Nepal, there is a tradition of announcing incentives of this nature, notably in budget speeches, but there is not a single study available in public domain that tells whether these incentives have worked or not, or even whether these have

[4] Indeed, in the entire NTIS10 document, the only one place where NNTP09 is referred to is in the foreword by the Secretary of the MoCS; one would normally expect to see many references.

TABLE 2:
Illustration of the product-specific actions recommended in the NTIS10

Broad areas of actions	Proudcts mentioned
1. Organizing and strengthening producer associations, and value-chain stakeholders	Cardamom, ginger, lentil
2. Addressing collection problem through cooperatives, contract farming, creating markets	Cardamom, ginger, lentil
3. Brand, geographical indication (GI), IPR	Cardamom, tea
4. Agronomy, better farming practices, extension R&D, seeds, varieties	All
5. Product diversification – incentives and technology	Cardamom, ginger
6. Post-harvest technology – drying, storage, transport	Cardamom, ginger, tea
7. Special production areas (land use policy)	Ginger
8. Testing equipment, labs, accreditation service, SPS	Honey, cardamom, tea, lentil
9. Incentives for investment in processing, technology	Tea
10. Export bans and taxation policies	Lentils
11. Domestic taxes	Lentil, ginger
12. Duty on raw materials, duty drawbacks	Tea, honey

Source: Based on Action Matrix, Part II of NTIS (2010)

been provided or not in the first place. As a result, more promises of incentives and subsidies are not taken seriously.

From the standpoint of TRSMs, therefore, the situation is one where constraints have been identified and actions recommended, but left with a sense of ambiguity and uncertainty on details and implementation. Note that these were also more or less the same actions identified in the NTCS03, and in other policy documents. Improvements could have been made in subsequent policy documents by being more specific and supported by analyses that show what worked and will work and what did not work and so will not be pursued.

The NTIS10 has made substantive expectations from the MoAC (e.g. in areas 4, 6 and 7 in Table 2, and indeed in all agricultural development programmes). But it is also known that the MoAC has a different priority, e.g. when it comes to the R&D and extension programmes, it is the food sector that receives the most attention. Some commentary on this in the NTIS10 would have been useful – for example, what are the exact expectations from the trade side, and what alternatives are considered (e.g. separate dedicated funds for these products that will not be reprioritized by the MoAC). One might just dismiss this comment saying that the NTIS10 is a government programme and the MoAC is also equally committed to that. The ground reality is different - at least this has been different so far. The MoAC is likely to see things differently this time too – it was not even represented in the preparation of the NTCS03, nor is represented in the high-level Board of Trade in NNTP09 or in a similar body under the 2010 industrial policy. Securing effective participation of other ministries in the trade programme is not a trivial issue, as the example of the APP shows (below).

2.2 Illustrations of trade-related initiatives and projects in agriculture

The above discussion covered the articulation of TRSMs in national processes led by the MoCS. This section focuses on agriculture, and on processes led by the MoAC. With that many donors and projects, the approaches to identifying and implementing agricultural projects vary considerably. One also finds in Nepal many models of support delivery by CSOs. All in all, therefore, there is a lot to learn from these approaches. In the short space available, what follows presents three illustrations of TRSMs focussed on agriculture.

Developing high value commodities (HVCs) – one priority output of the Agriculture Perspective Plan (APP)

What happened to the HVC programme in the context of the APP (APROSC-JMA 1995) is highly relevant for the theme of this paper because the strategy and actions envisaged for export products in trade policies, reviewed above, are very similar to those intended in the APP. If it works in one, it will work in the other.

HVCs were one of the outputs identified by the APP for investment priority. The HVCs included citrus throughout the hills, apple in the inner Himalayan zone, off-season vegetables in the hills and Tarai, vegetable and flower seeds in the hill and mountains, apiculture in the hills and mountains and raw silk in the hills. One reason for targeting these products was the high growth potentials grounded in Nepal's comparative advantage from agro-ecological diversity.

Three groups of activities in particular were envisaged to spur the commercialization of the HVCs: i) integrated approach in production; ii) post harvest operations; and iii) marketing. The APP stressed on dealing simultaneously in all the three areas. The success of the programme, or lack of it, thus needs to be assessed on this ground.

According to an evaluation study (APP-ISR 2006), on overall public investment, the Interim APP had projected investment requirement for the HVCs of about Rs 862 million over the five year period or about Rs 168 million per year. In the Ninth Plan, government development budget allocated to the HVCs amounted to about Rs 50 million per year, and about Rs 92 million in the Tenth Plan, well below the APP's estimated annual requirements. The conclusion reached was that from the investment perspective, HVCs were not prioritized as envisaged by APP. The study also notes that investment did not always yield a return. For example, despite the fact that over the period of the Interim APP to date (1997/98 to 2004/05) the research agency, NARC, invested almost Rs 100 million rupees in horticultural research, no new varieties of fruit or vegetables were released over the period (APP-ISR 2006).

On policies, the overall observation made was that, in general, most of the policy measures for the promotion of HVCs have not been implemented effectively.

The key production strategy was to improve road connectivity, harness scale economies through production in blocks supported by irrigation, technology and farm organizations, and reduce transaction costs by removing legal/administrative restrictions that come on the way and deter free movement of goods across the country. These measures are meant to minimize risk in production, processing and marketing. In all these areas, something was done but not enough to make an impact. Implementation was weak, notably in the designation of pocket areas, provision of institutional credit and generation of appropriate technology.

The APP evaluation also notes a number of problems on the institutional side. For instance, it had envisaged the establishment of a small HVC Unit within MOAC, but was not established. As a result, the APP priority programme tended to be diluted within many other programmes at the centre and districts. Likewise, at exactly the time when the citrus programme required emphasis as per the APP, the government terminated the National Citrus Development Programme, but corrected this to some extent a few years later in 2004. The APP also proposed to establish Agriculture Services Centres at the market assembly centres of the programme blocks but this did not happen.

Nepal's Agri-business Promotion Policy 2007 (ABPP07) reiterated the APP strategy and made further commitments. It said that market network to connect commercial agricultural pocket areas of north-south highway and near feeder roads will be developed, production zones for special agricultural commodities expanded and services provided, collection centres near production zones established and markets in nearby urban areas organized. Further, tariff rebates for the operation of cold store and wholesale markets will be provided. One could only hope that these well recognized problems and issues will be dealt with seriously this time.

In closing, there are also many success stories too. For example, the APP evaluation remarked that some programmes implemented by CSOs have been effective in this area, e.g. CEAPREAD's work on vegetables and vegetable seed and FORWARD's work on livestock. These also demonstrate that there are models that can be emulated for providing services to rural areas and for organizing production and marketing.

Agricultural commercialization projects

Diversification away from subsistence farming, commercialization and value addition are elements of the core strategy for agriculture found in all policy frameworks (national plans, and agriculture and trade policies). This is typically seen as moving to cash crops but also applies equally to the food sub-sector. The new framework for commercialization is value chain, with interventions covering all stages of the chain, not just production. Two relatively large scale projects on commercialization are being implemented by the MoAC: Commercial Agriculture

Development Project (CADP) funded by the ADB (ADB 2006); and Project for Agricultural Commercialization and Trade (PACT) funded by the World Bank (World Bank 2009). The brief account below illustrates, rather sadly, that the process of articulation, formulation and implementation of these critical interventions have been rather complex and lengthy, and thus one message is that simplifying the process is as important as mobilizing funds for the TRSMs.

The projects emerged from long-standing consensus in the MoAC that the way forward is diversification and commercialization, as was also stressed by the 1995 APP. The work begins with a concept paper by the MoAC that is shared with the NPC and DPs for an informal consent. When the feedback is positive, the note is further refined and sent to the finance ministry for officially sharing with the DPs. Once a donor picks up the idea, the project formulation process begins, with background studies, analytical works and project preparation, typically with a technical assistance grant. At the same time, a National Steering Committee is formed where major design issues like scope, components, institutional arrangements and governance issues are discussed frequently, including with larger body of stakeholders. Further steps include appraisal by the DP and final negotiations, endorsement by the NPC, and loan signature.

It is evident that the entire process for funding goes through a lengthy cycle involving 15-16 process steps lasting 6-7 years (Box 1 for CADP). The other project, PACT, also underwent through similar steps, taking six years from the concept to financing agreement. Long bureaucratic cycles of both the DPs and government cause delays. Political developments add their own toll, at times even deadlocks. Another concern is with the quality of inter-ministerial and stakeholder consultations. Aside from frequent changes in staffs, these meetings at times can be fairly perfunctory, with many members not showing the required interest and contributions. Protracted rounds of revisions remain the hallmark of project preparation and appraisal. For example, the PACT project is said to have been substantially scaled down to almost half from what was initially envisaged in terms of funding, scope and components. From the standpoint of trade, the MoAC process may also be faulted in not having links with the trade process, including trade policy and diagnostics studies. This has the risk, *inter alia*, of the project focusing too much on the production side and less on marketing and trade aspects.

On a positive note, these projects made a significant contribution in Nepal in defining more concretely the concept of public-private partnership in agribusiness development. Both the CADP and PACT have incorporated, in their design, strong components for supporting the private sector investment proposals in activities that contain "public good" element while being an apparent private sector venture for profit-making. Such investment proposals would be financed (up to 50 percent of investment) on a grant basis by the "Fund" created by the projects. In addition, in the CADP, this component is implemented by a private sector entity called *Commercial*

Box 1:

CADP - Process steps from 2001 to 2007

1. Project concept paper → 2. Fact Finding Mission → 3. Project preparation technical assistance → 4. Background study (social surveys and analysis) → 5. donor review mission → 6. Loan Fact Finding Mission → 7. Iterative consultations → 8. Follow-up Fact Finding Mission → 9. ADB Management Review Meeting → 10. Appraisal mission → 11. Staff Review Committee Meeting → 12. Grant Negotiations → 13. ADB Board consideration/approval → 14. Approval by the NPC → 15. Grant agreement.

Agricultural Alliance established as a not-for-profit entity under the Company Act. Lastly, the PACT, being formulated after Nepal's WTO accession, explicitly refers to issues like competitiveness in cost and quality for trade integration.

Aside from implementing the projects, there is a big payoff from analytical works trying to learn lessons and best practices on several innovative features being tried in these projects.

Responding to SPS-related problems

It is a common knowledge that the wide gap between the levels of technical standards called for in the WTO SPS Agreement and those that Nepal can meet currently is a major impediment to agricultural exports. Among others, the studies by Karki *et al.* (2004), Mahato *et al.* (2004) and KC *et al.* (2004) on trade in food products, in live animals and livestock products and in plants, respectively, document known cases and anticipated impediments on trade expansion. The sudden disruptions to trade due to recent animal and human health scares that spread rapidly across borders have alarmed Nepalese officials, business community and consumers. Nepalese agricultural exporters to India have also had many bitter frustrations trying to meet standards imposed by India, which are often seen as being ad hoc and unreasonable, e.g. the new regulation in 2000 requiring the mandatory test of imported plants and products in designated laboratories that are located far away from the border. Outside of India, Mahato *et al.* (2004) report, for example, unsuccessful efforts to export butter to Tibet and honey to Norway, for reasons of lack of convincing systems of quality control, and official inspection and certification.

While much of this has been known for some years, the point being made here is the nature of response from the Nepalese side, which may be characterized as a "disjointed incrementalist approach", thus undermining the cost effectiveness of the response.

For food and agriculture, the institution responsible in this area is the Department of Food Technology and Quality Control (DFTQC) under the MoAC. Its goal has been to develop capacity for laboratory accreditation and mutual recognition agreements (MRAs) as recommended in the SPS Agreement. Over the past decade or so, it has benefited from a number of donor-supported assistance programmes. It received a non-project grant from the Japanese agency, JICA, for the construction of a building to house a well equipped modern food laboratory. Three other projects, from UNIDO, EC-WTO and PTB-Germany, have also supported DFTQC through laboratory equipments and human resource trainings in a complementary manner. The DFTQC is now said to be close to fulfilling necessary conditions for laboratory accreditation and is expected to get one soon from the Indian national accreditation bureau. This is expected to pave the way for the long-sought MRA with India.

Notwithstanding this progress now, if one were to look back towards the beginning some 10-12 years, the question that comes to mind is why the government could not respond to the challenge with a large, comprehensive and holistic project or programme when the payoff to that investment was known to be immense. Resources should naturally have been channelled to this activity as a matter of priority. Instead, what happened was the execution of a host of small and disjointed components, some of which within the larger projects under the MoCS (and the MoI) or its Departments. The DFTQC and the issue of food standards and quality were not the principal targets of the parent projects. No comprehensive blueprint was developed but rather small interventions were made continually, thus undermining the returns.

Another source of frustration has been the lack of response in the form of assistance from the bilateral trade partner with whom Nepal faced a specific SPS-related problem. The SPS Agreement strongly encourages richer trading partners to solve issues like these through assistance. For example, it is learnt that Nepal's request for assistance to establish a quality control and certification system following the SPS-related rejection of honey was not responded by Norway. Likewise, India's response to assist Nepal on laboratory accreditation and MRA has been said to be lukewarm for years.

3. Conclusions

Nepal faces many challenges in mobilizing and channelling external and internal (public and private) resources for trade development. Supply-side capacity building and infrastructures top the list of the needs. But many "soft" infrastructures such as policies, institutions and regulations are also lacking. To be able to do all that effectively, a sound process needs to be followed for identifying and prioritizing TRSMs. That framework is "mainstreaming" support measures – a process that follows from, and is consistent with, key national policy frameworks, including development, trade, industry and agriculture. It was in this context that Section 2 reviewed current practices and issues on identifying support measures. Several issues and problems were discussed there. Without repeating them, this concluding section notes some further issues of a more cross-cutting nature.[5]

Agreement on priority export products

All major policy frameworks reviewed have either listed priority products for special treatment or indicated that these should be identified based on some criteria. The rationale for prioritization is to focus limited public resources on high potential areas. Product development requires efforts of more than one ministry and so a consensus among ministries is essential. Table 1 earlier showed that this congruence was lacking, even within trade policy frameworks prepared almost together (e.g. only eight products in NNTP09 are included in NTIS10 while 11 others excluded, and four new added in NTIS10). The PRSP's (TYIP07) trade chapter does not identify such products but its agriculture chapter does, several of which are also found in the trade policies. The APP's HVCs, which were identified primarily based on trade potentials, also differ from those in the trade policies. One main reason for the discrepancy is that Nepal's trade policy is focused fully on exports while the agriculture policies include foods and importables.

If one were to count all individual products in these policy frameworks, the list becomes too long, essentially undermining the very notion of targeting resources on priority products. The issue is one of allocation of resources and efforts. In the APP, the rationale for limiting to only 4-5 HVCs was expressed as follows: "One critical problem for the APP is to set priorities that will limit the number of commodities emphasized to allow adequate scale economies in the scarce research, extension, market development, and administrative services so essential to the development of the HVCs. This need to set priorities and to specialize is apparent in both the public and private sectors". As discussed earlier, actual allocation of resources during implementation deviated from this APP view.

As supply-side constraints are the primary impediments, the mere listing of agricultural products in the trade policy documents will have little significance unless the same products are given high priority in the agriculture and other policy documents. This does not seem to be the case, including for some other reasons noted below.

5 The previous two chapters on Nepal also discuss issues useful for this chapter.

Incentives, encouragement, facilitation, emphasis, and so on

The NNTP09 makes provisions for incentives in several places, notably in its Section 4.5 - *additional incentives to export-oriented industries* – but also in product development programmes. A sample of such statements are shown in Box 2.

Box 2:

incentives to export-oriented industries provisioned in NNTP09

- An Export Guarantee Scheme to be introduced (Section 4.5.1)
- Incentives to be given for value addition to products currently exported in raw form
- For products with long production cycle (e.g. tea, coffee), arrangements to be made for leasing land for commercial farming (Section 4.5.1)
- A Product Development Fund to be established for transporting raw materials to processing centres (Section 4.5.2)
- Ancillary industries that supply raw materials to industries in export and special Zones to be encouraged (Section 4.7.2)
- Export Promotion Fund to be used for new technology adoption and upgrading of production process (Section 4.8.2)
- Industries in Export Processing Zones to be allowed to sell a certain percent of their products in domestic market (Section 4.12.1)
- Export of processed leather and leather goods to be encouraged (leather section)
- Subsidized loan facility for import of machineries and equipments (leather section)
- Facilities and incentives to be provided to investments considering those provided by neighbouring countries.

These proposals merit some commentaries. First, it is not explained anywhere why these measures were selected, although these are fairly well known and standard incentive schemes also found in trade policies of many other countries. It would have been useful to know what other measures were considered and debated, and why some were dropped and others retained. Presumably these were identified by committees and stakeholders, but there were no records or analyses that would explain the rationale and reasons for the choices made. Second, while policy documents pronounce such measures, these become hard commitments only when announced in annual budgets. So the private sector needs to wait until such a time to find out about the incentives. Based on the experience from Nepal and elsewhere, it is also critical that for these measures to be effective, the incentives provided have to be sufficiently attractive. It is not just about the presence of the measure but its effectiveness, and that will depend on the extent of the incentive granted, e.g. a 30 percent subsidy on loan or a 20 percent tax break, but not lower parameters. This is a difficult task of fine-tuning the critical parameters, and requires strong analytical units in the ministries, something that is sorely lacking now. In its absence, these are going to be settled through committees and task forces, most likely with little evidence-based analyses.

Third, there is the issue of priority and allocation of incentives. One or more incentives are provisioned in all 19 prioritized products. Seen individually, these may make sense. But seen collectively, one could ask how is it possible to provide incentives to everything when available resources (including revenue foregone) are limited. In the past, for political or other reasons, some commodities were favoured (e.g. tea) over others (e.g. ginger). When incentives are rationed across all products, the size of the incentive could turn out to very small and ineffective. These are difficult policy issues and unlikely to be addressed well without some serious analytical work.

Futile to try to define the scope of TRSM or AfT for quantification of the flow

In the course of the background work and consultations that contributed to this paper, some time was spent on discussing the "scope" of the AfT or TRSM, with a view to contributing to measurement and monitoring of the AfT flow. This proved to be a futile exercise. First, it was not possible to compile AfT outlays for Nepal because complete information was simply not available or accessible in key ministries. Second, it appeared that almost everything can be said to be AfT or TRSM. This is more so in a country like Nepal where supply-side capacity building and infrastructures are the key constraints. The APP model of agricultural development, for example, considers roads, electricity and irrigation as the key priority inputs for product development.

Lack of baseline statistics on product-specific supports makes it difficult to discuss the issue of prioritization of resources

There is a serious dearth of statistics on product-specific public outlays. One example is research budget. All policies and action plans for priority products (e.g. tea, cardamom) call for improving technology. Yet, there is no statistics on how much is currently spent on what, and so no basis for reallocation or expansion of resources to conform to new priorities. The same could be said of many other public outlays that can be linked to commodities, including subsidies. For example, it is not known how much of the incentives granted (including revenue foregone) is actually utilized by a priority product. A related issue is quantifying the allocation of public support along the value chain of a given product. It is generally held that much of such support goes to primary production and little to the subsequent stages. If this imbalance is to be rectified, the above information is essential. The agricultural commercialization projects – the CADP and the PACT – provide an opportunity to generate valuable information like these.

Greater collaboration is needed among ministries, in particular among trade, industry and agriculture

This has been a recurring issue and also came up in stakeholder meetings held in preparing this paper. As noted above in the IF/EIF sub-section, the view is that the MoCS does not consider MoAC as a "relevant" ministry when it comes to formulating trade policy as exemplified by the MoAC's absence in high-level board and steering committee. This needs to be rectified if progress is to be made on mobilizing the MoAC support to the priority export products identified in the trade policies. This will avoid the fate of the APP, particularly its priority commodities that suffered from lukewarm support from other ministries. The previous chapter (mainstreaming) noted that the process in place currently at the National Planning Commission (NPC) for finalizing mainstreamed trade and agricultural plans/policies is fairly weak. However, there is some hope on this with the new arrangement of IMTCs (see IF/EIF section above) with the MoAC Secretary chairing one committee. The outcome however will depend largely on the initiative of the MoAC itself.

Stepping up of bilateral and regional projects and programmes

And a last point – given the backward state of its own infrastructures and landlocked status, it is very important for Nepal to be pro-active in urging donors and regional trade partners to do more on cross-border and regional infrastructures and other cooperation initiatives like those in the SPS and R&D. This is the only way to reduce trade costs and be competitive, including in neighbouring markets that are growing rapidly. There are promises made in the bilateral and regional agreements like SAPTA and BIMSTEC for doing more on these, and Nepal needs to be proactive in mobilizing donors and regional partners to do more on these.

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Sri Lanka – Agricultural trade policy issues

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1. Introduction

As many other developing countries, Sri Lanka has also experimented since independence with alternative development strategy and policy regimes - from open, free-market policies up to 1959 to import-substituting industrialization during 1960-1977, and then to export-oriented liberalization since 1977. While trade policies are fairly liberal in the non-agricultural sector, the range and depth of policy interventions are wider and deeper when it comes to agriculture, especially the food sub-sector.

Sri Lanka's economic growth performance, especially since the reforms of late 1970s, is considered to be relatively satisfactory in comparison to many similar developing countries. But this has not been the case for the agricultural sector, especially the food sub-sector. There is a widespread feeling among economists that economic reforms did not work well for the import-competing food sub-sector. Sri Lanka has two distinct agricultural sub-sectors: traditional export crops dominated by tea but also including rubber, coconut, spices, and more recently some non-traditional products like fruits and vegetables; and an import-competing food sector dominated by rice and including many other crops, livestock and diary products, and sugar. Trade and price policy regimes have been historically very different for the two sub-sectors, which continue.

The Sri Lanka case study in the World Bank agricultural distortions project (Bandara and Jayasuriya 2009) shows that the production of traditional exports (tea, coconuts and rubber) was taxed to the tune of over 40 percent in the 1960s and 1970s but fell gradually to about 20 percent in the 1980s up to 1990s and to a position of no net taxation since the mid 1990s. In contrast, importables generally enjoyed positive protection, ranging at modest levels for rice to high levels for products like chillies, onions and potatoes, but also for some other food products in recent years.

As the next section illustrates, the Government of Sri Lanka (GoSL) continues to intervene actively on a range of food products in particular with a variety of trade and pricing policies. These policies often have multiple goals such as containing retail prices, protecting farmers and encouraging value adding industry. As a result, various stakeholders in the agricultural chain are affected in different ways, and this has generated lively debate in policy circles and the media.

It is against this background that this paper seeks to contribute to the process of articulating appropriate trade policy. This process involves understanding the goals, identifying policy options, assessing the impacts and choosing appropriate responses through analysis and stakeholders consultations. The paper is prepared by a team of analysts on the basis of the review of literature, data analysis and stakeholder consultations. The process was led by the Sri Lanka Institute of Policy Studies (IPS). About 10 national experts consisting of independent analysts and government officers were involved in the background work. Many meetings were held with government officers and non-state stakeholders, including the CSOs. This provided a rich perspective on different views and responses. This paper utilizes the inputs from the following four background studies prepared for the FAO project (Karunagoda 2010a and 2010b, Samaratunga 2009 and Weerahewa 2010).

The rest of the paper is organized as follows. Section 2 discusses trade and related policy issues for selected commodities and product groups as well as some cross-cutting topics. Section 3 discusses some additional cross-cutting issues.

2. Key trade and related policy issues

In common with many other developing countries, trade and pricing policy interventions in the Sri Lankan agriculture are increasingly focused on fewer and fewer products. These are typically 8-10 import-competing food products, plus some close substitutes. As these products play important, politically sensitive, role in the economy in one form or other, policies invariably attract keen interest and debates are often divisive.

The following groups of products are covered: i) traditional and non-traditional agricultural exports; ii) cereals and other field crops (rice, wheat, wheat flour, chillies, onions and potatoes); iii) other basic food products (milk powder, poultry and sugar); and iv) exporting coconut industry. Also discussed are two cross-cutting topics: i) Indo-Sri Lanka Free Trade Agreement; and ii) domestic support measures.

2.1 Traditional and non-traditional agricultural exports

Sri Lanka's prominent *traditional agricultural exports* are tea, rubber, coconuts and spices, with the former three together making up 85 percent of the total export. Since 1977 the volume and value of the total agricultural export have shown an increasing trend. A number of factors are considered to have contributed to this: i) significant trade liberalization freeing up many controls on trade; ii) elimination of distortionary taxes; iii) privatization of government plantations; and iv) strengthening of the world market prices. As a result, plantations have been restructured and revitalized, leading to increased productivity and production.

Export duties on all minor agricultural exports were abolished in 1988 and on major exports in 1992. Other restrictive policies like quotas or controls by STEs were also abolished and have not been re-imposed in the post-reform period. These exports do not receive any direct export subsidy nor the WTO-compatible subsidy for reducing transport and marketing cost. To maintain the quality of Sri Lankan exports, some restrictions are imposed on the import of tea and spices to prevent re-export.

A reading of the literature and media reports indicates that there are relatively few divisive issues facing this sub-sector on policies like export tax and incentives. The cess on exports attracts some debate but more from the side of the revenue utilization than on the policy itself. Cess is low, e.g. Rs 2.50/kg on tea for some time and raised to Rs 4/kg in 2006. Tea and spices have hit headlines from time to time but in the context of the India-Sri Lanka FTA (see below). One other prominent topic in the literature is the question of the extent to which farmers, especially small farmers, have benefited from the growth in exports of this sub-sector (discussed below).

Non-traditional agricultural exports generally refer to products like vegetables, fruits and some other speciality products. In particular, vegetables are considered to have significant export potential in view of the large Sri Lankan diaspora in the Gulf and Europe. The government promotes these products through the Export Development Board (EDB). Among the incentives provided are subsidies of 3 percent of the fob value during the first year of operations, custom duty waiver on imported intermediate inputs, and income tax exemption on export earnings. Additional subsidies are available for value added agricultural exports. In addition, production subsidies are also provided for encouraging production for export.

Unlike for import-competing foods, trade and pricing policies for these products have not been divisive, presumably because of the small amount of the assistance provided for exports (less than 1 percent of the total export value) and for domestic production support (around 1-2 percent of the value of production). The other reason could be that these interventions do not distort domestic prices much, unlike for example in the case of sugar and poultry.

2.2 Cereals and other field crops[1]

Rice/paddy

Being the main staple, the GoSL's desire for decades has been to attain full rice self-sufficiency. Import protection was a major policy applied throughout this period, along with development measures like irrigation, research etc. The data show that Sri Lanka has raised the level of rice self-sufficiency and imports have been declining over the years. Rice trade was tightly controlled through stringent import licensing system and STE monopoly on trade. Following the implementation of the WTO agricultural agreement in 1995, a major policy change took place in 1996 when quantitative import restrictions for several products were replaced with *ad valorem* tariffs together with licensing requirement. Until 2000, this tariff was 35 percent plus a national security levy of 4-5 percent (Table 1). From 2002 onwards, when world prices were depressed, this was replaced with specific tariff that ranged from Rs 5/kg to 9/kg except for Rs 20/kg in 2008 (plus 5-6 percent security tax).

The GoSL waives these statutory tariffs periodically for short periods when domestic prices are high. This has happened for about half of the time during the past 10 years or so. Analysts have questioned this policy on the ground of its effectiveness as traders have often taken advantage of the waivers to stockpile rice and release it to market later, undermining the desire to maintain farm prices.

Some studies have documented that local market prices of rice in Sri Lanka are largely determined by domestic supply and demand conditions, with the correlation coefficient between domestic and world prices of about 0.5-0.6 (Karunagoda 2010a). In an analysis for the late 1990s, Sharma (2002) had also found little transmission of changes in the world market to domestic markets for rice as well as wheat. The main reason was trade policy, namely the frequent and consistent variations in tariffs that prevented the transmission. Another indicator of market functionality is stability of marketing margins. The data show that these margins have been stable throughout the year and thus paddy market can be considered to be efficient even in the absence of major government interventions or supporting structures (Karunagoda 2010a). Analysts also hold that price differences among markets in the country were not the result of deliberate manipulations as can happen under a monopolistic or monopsonistic market structure but due to imperfections inherent in the system which make effective arbitrage in response to spatial price differences difficult (Karunagoda 2010a). Inter-market price spreads exist due to erratic supply changes linked to seasonal imports which often destabilize inter-market arbitrage and dissemination of price information.

[1] Some issues on maize are covered under poultry.

TABLE 1:
Rice tariffs, 1995-2010

Year	Period	Statutory duty	Duty waiver	Effective import duty %	NSL
1995	Jan 1 1995-Feb 7 1995	35 or Rs 7/kg	0	55	4.5
1996	Feb 8 1995-April 14 1996	35	0	35	4.5
1997	Apr 15 1996-Jan 30 1997	35	35	0	4.5
	Jan 31 1997-Nov 20 1997	35	0	35	4.5
1998	Nov 21 1997-Jan 31 1998	35	35	0	4.5
	Feb 01 1998-Nov 05 1998	35	0	35	4.5
1999	Nov 06 1998-Oct 23 1999	35	0	35	4.5
	Oct 24 1999-Dec 31 1999	35	25	10	5.5
2000	Jan 01 2000-May 10 2000	35	0	35	5.5
	May 11 2000-Jul 16 2000	35	0	35	5.5
2001	July 17 2000-22 Nov 2001	35* (L)	0	35	6.5
	22 Nov-10 Dec 2001	35** (IQ)	35	0	6.5
	10 Dec-31 Dec 2001	35	50%	17.5	6.5
2002	21 Jan 2002-6 Nov 2002	7 Rs/kg (32%)	0	34	6.5
2003	6 Nov 2002-5 March 2003	5 Rs/kg (24%)	0	24	6.5
	6 March 2002-19 Aug 003	7 Rs/kg (33%)	0	33	6.5
	20 Aug 2003-31 Dec 2003	9 Rs/kg (34%)	0	43	6.5
2004	1 Jan 2004-04 Oct 2004	9 Rs/kg (34%	0	34	6.5
2004	05 Oct 2004-15 Jan 2005	9 Rs/kg (29%)	9 Rs/kg	0	6.5
2005	1 Jan 2005-15 Jan 2005	9 Rs/kg (29%)	9 Rs/kg	0	6.5
2006	16 Jan 2006-31 Dec 2006	9 Rs/kg (27%)	0	27	6.5
2007	1 Jan 2007-31 Dec 2007	9 Rs/kg (52%)	0	52	6.5
2008	1 Jan 2008-31 Jan 2008	20 Rs/kg (26%)	20 Rs/kg	0	6.5
	1 Feb 2008-31 Dec 2008	20 Rs/kg (26%)	0	26	6.5
2009	1 Jan 2009-30 Nov 2009	20 Rs/kg (30%)	0	30	6.5
2009	1 Dec 2009-31 Jan 2010	20 Rs/kg (30%)	20 Rs/kg	0	6.5

Notes: *(L) = Import licensing, ** (IQ) = Import quota of 60 000 duty free, NLS = national security levy. Figures within the parentheses are equivalent ad valorem tariffs.
Source: Sri Lanka Customs

Thus, overall, the trade policy regime for rice has been guided principally by considerations of domestic market price, waiving duties during shortages and raising tariffs and providing farm support/subsidy when prices are depressed. Sri Lanka is considered to be a relatively high-cost rice producer in Asia and so the sector would come under considerable pressure if trade were fully freed. Price stability – especially avoiding the extremes of low and high prices – will remain the primary goal and this means that trade policy will continue to be used as in the recent years.

Wheat and wheat flour

Wheat flour is considered an *essential* commodity in Sri Lanka and is second important staple after rice. All requirements are fully met by imports and imports have been increasing over time. The primary reason for policy interventions in wheat is considered to be the GoSL's 1978 agreement with a private mill (Prima Ceylon Limited) to process grain into flour. The agreement was to expire in 1999 but was extended to 2004. The company guaranteed providing the government with 74 percent of the milled flour for every 100 units of wheat grain supplied, the remaining flour retained by Prima as payment for milling cost. It is said that using this excess flour, Prima supplies the local market with animal feed, over which it has now a virtual monopoly.

Indeed, the agreement with Prima has defined the character of the policy interventions on wheat as well as on animal feeds. First, the contract served to delay the liberalization of the wheat/wheat flour and animal feeds markets, until June 2001 when Prima was privatized and wheat imports liberalized. The contract to sell Prima (Ceylon), which seems to have the force of a law, stipulated a formula to fix the price of general purpose standard wheat flour for five years (until June 2006) on the basis of the f.o.b price at the Kansas City Board of Trade. Second, the contract also stipulated that "the tariff difference of wheat grain and wheat flour will be maintained at a rate of 25 percent for a period of seven years" commencing in 2001. This high tariff protection should have given Prima (Ceylon) a *de facto* monopoly in the milling of flour. However, tariffs on wheat flour have often been set below the stipulated levels (Table 2). Further, a second flour mill commenced operations in August 2008. Import duty on wheat was raised to 15 percent in 2009 and a cess of 5 percent imposed on flour imports. As a result of the above pricing and tariff policies, domestic prices of wheat flour and related products have been higher than the world market prices – thus penalizing consumers and undermining the GoSL's designation of wheat as an essential food item.

TABLE 2:
Import tariffs on wheat and wheat flour, 1995-2009

	1995	1996	1997	1998	1999	2000	2004	2006	2008	2009
Wheat	35%	20%	Full duty waiver	Full duty waiver	20%	5%	Full duty waiver	6%	10%	15%or 10 Rs/kg
Wheat flour	35%	35%	Full duty waiver		Full duty waiver	25%	Full duty waiver	15% or 4.50 Rs/kg	15%or 4.50 Rs/kg	15% or 10 Rs/kg +5% cess

Trade and pricing policies on wheat have implications of their own for wheat consumption but also, and importantly, on rice (see Dayaratna-Banda *et al.* 2008). Notably, the reductions in wheat tariffs have been found to have suppressing effects on the farm gate prices of rice. It is largely for this impact on rice that wheat policy comes to prominence from time to time. This close cross-price effect was also observed in 2000 when the government introduced consumption subsidy in the form of reduced price of wheat flour. Because of the effect, the subsidy was quickly withdrawn in 2001.

The GoSL's long term goal seems to be to reduce the consumption of wheat to be replaced by domestic rice. According to an IPS media report, some unofficial figures show that consumption of bread and wheat-based products has fallen by as much as 40 percent. Indeed, wheat imports have fallen significantly, from around 120 000 tonnes a month about five years ago to around 80 000 tonnes per month in recent months. National food security experts have welcomed this. Even the President of the country is said to have welcomed this trend.[2]

Chillies, onions and potatoes

Among the "other field crops" (OFCs), trade policies for chillies, onions and potatoes have been relatively contentious in the past. Although small crops in volume and concentrated in some regions only, these have been highly sensitive crops politically. The promotion of the OFCs was initiated in the mid 1960's with the introduction of the government's *Food Production Drive* programmes. Trade policy was very protective and when imports were banned in 1971 there were unprecedented price

[2] "I am exceedingly glad at the fall in consumption of wheat-flour based products. Despite the fact that we possess very fertile lands, the consumption of (imported) wheat was forced upon us, initially by the provision of wheat free of charge, and later on credit, until we were addicted to it," according to the President, as reported by IPS in a news story on 15 April 2008 (http://ipsnews.net/news.asp?idnews=41993).

TABLE 3:
Nominal protection coefficients (NPCs) of chillies, onions and potatoes

	1985-89	1990-94	1995-99	2000-04	2005-08
Chillies	1.20	1.52	1.59	1.49	1.28
Onions	1.41	1.00	1.32	1.08	1.17
Potatoes	0.84	2.41	2.78	3.53	2.59

Note: Higher protection level for potatoes after 1996 also reflects higher domestic prices of the domestic variety.

increases which led farmers to respond strongly and production doubled. Even in the post-1977 reform period, potatoes, chillies and onions were heavily protected right up until 1996. Since 2000, specific tariffs were used for protection. These high tariffs also show up in computed Nominal Protection Coefficients (NPCs), with high levels for potatoes in particular throughout the past 20 years or so (Table 3), although in part this was also due to the higher quality of domestic potatoes.

Despite the highly protective regime, both the area planted and production of these crops show declining trends since the early 1990's. One reason given is lack of appropriate technology (variety). The other is labour shortage and the generally rising wage rates in Sri Lanka (these crops are relatively labour intensive). A third reason is said to be the much bigger focus of policies and support measures on rice self-sufficiency and the neglect of the OFCs generally. A message from the experience of chillies, onions and potatoes, and the OFCs in general, is that restrictive trade policies, no matter how intense, alone will not help when other factors are not favourable.

2.3 Other basic food products

Milk powder

Sri Lanka produces only 20 percent of the country's national milk/dairy needs. Annual imports of milk powder have reached around 60 000 tonnes. Aside from the large and rising import bills, policy problem in the country intensifies whenever the price of milk powder rises in the world market.

Milk powder is designated as an *essential* food item and so the GoSL can regulate (fix, contain) its maximum retail price.[3] Milk powder price is a hot political issue, and

[3] Under the Consumer Affairs Authority Act of 2003, the Authority may enter into agreements with any manufacturers or traders of goods on the maximum retail price. In addition, the Act also states that no manufacturer or trader shall increase the retail or wholesale price of any good in the essential basket except with the prior written approval of the Authority.

promises of price cuts have even featured in some election manifestos. Accordingly, policy is primarily geared towards this goal and interventions are made from time to time to set maximum retail prices. In response, milk powder dealers do also petition the government for raising the price. A typical government response has been to hold on to the maximum retail price but to provide some relief in other ways, such as reduced tariff and tax exemption. Thus in February 2010, the Cabinet Sub Committee for Cost of Living decided not to permit an increase in milk powder price after, as reported in the media, long deliberations in the committee on the prevailing domestic and world prices. The issue then was a request from powder traders for a price rise of Rs 135 on a one kilo packet and Rs 35 on a 400 gm packet. The government responded by adjusting import tariff on milk powder.

Given this recurring policy problem, raising domestic production and competitiveness obviously became a high priority. In 2004, a national programme was announced to establish 1 000 *Dairy Farmer Villages* countrywide, promising large outlays with the goal of raising self-sufficiency level to 50 percent in 4-5 years from 20 percent then, and to full self-sufficiency by around 2015. Besides the prospect of saving on huge import bills, the policy was also justified on the ground of assisting the dairy sector dominated by small producers.

The consensus view in the country seems to be that raising milk production is feasible and the one reason why production lagged so much so far was inadequate support to the sector (Ranaweera 2005). Also, depressed world prices of milk powder lessened the pressure for putting more efforts. That era of low price is considered to be over now and so there is a stepping up of investment by both the government and private sector.

On trade policy, there is a consensus that for an enabling environment for private investment, policy needs to be much less *ad hoc* than it is now. For many, this amounts to some variant of a variable levy scheme, such as that in Chile in the past, so that stakeholders have a better sense of tariff protection and domestic prices when world prices fluctuate.

Poultry and feeds

The poultry sub-sector policy is complicated in large part because there are two administered prices along the value chain - a maximum retail price for chicken meat (as poultry is designated an *essential* food item), and a guaranteed farm price for maize, the main feed. Influencing this value chain is import duty and a cess for the maize development fund. For all these reasons, poultry policy has become contentious and complex.

The industry has been complaining that its margins have been squeezed narrowly because of the maximum retail price for processed chicken on the one hand and the guaranteed maize price on the other. The Chairman of the All Island Poultry Association (AIPA) was quoted in 2008 as saying that the industry was in a serious crisis "due to these imprudent policies".[4] He said the industry has been on the decline since 2005 and 25 percent of small farmers have closed their business.

The industry claimed, based on its own calculations, that the maximum retail prices set at various periods have been below the cost of production. At the same time, poultry feed prices are said to have soared by close to 50 percent in recent years. While the maize price spiked in the world market, the industry blamed the government for high tariff and a 20 percent cess, as well as the guaranteed farm price of maize. It was further claimed that as farmers sell the entire maize immediately after harvest, it is the intermediaries who benefit from the tariffs and guaranteed prices as they buy cheap from farmers while benefiting from the guaranteed higher prices.

The AIPA Chairman further said that fixing the maximum retail price for a perishable product like meat also does not make sense if the government's concern is with hoarding and speculative price fixing because farmers cannot hold meat stocks for more than a few days. He also disagreed that chicken is an essential consumer food item (saying, instead, it is a luxury food), and further went on to say that at one time the AIPA even intended to initiate legal action against the Ministry of Consumer Affairs for setting a fixed maximum retail price.

Based on media accounts, the GoSL seems to be sympathetic to the industry concerns but finds the poultry-feed complex difficult to resolve. It has been reported that the Minister for Consumer Affairs had said that the government wished to keep the price of maize around Rs.28/kg to encourage maize production but that maize prices had gone up to Rs.45/kg or more as market tightened (plus the effect of the tariff). He also conceded that many poultry farms had to even cease operations and that the government needs to allow more maize imports to contain the price. The poultry issue indicates the difficulties in balancing multiple interests and where cross-commodity linkages are strong. These issues obviously require a good analysis based on a sound conceptual framework and disaggregated statistics covering the entire value chain. No such study was found during the background work.

Sugar

Managing trade and pricing policies for sugar is a difficult challenge for most countries and the Sri Lankan story is not very different. Over the years, sugar production lagged demand and import dependency soared, to around 90 percent

[4] "Imprudent policies will hit poultry industry" by Gamini Warushamana, Sunday Observer, 20 April 2008 (http://www.sundayobserver.lk/2008/04/20/fin04.asp)

currently. There is a pressure "to do something" to contain the high import bills. In the mean time, sugar is also designated as an *essential* food item which means that the GoSL also intervenes from time to time on behalf of consumers. When world market prices crash, as they do frequently, interventions are called upon again to maintain farm price.

From time to time, one response from the government has been to consider higher self-sufficiency target for sugar and production programmes. At one time, a target of 35 percent was set for the year 2000. In July 2009, there was a media report that the Ministry of Plantation Industry had a six-year plan to expand cane farming to additional 96 000 acres with a target of reaching 50 percent self-sufficiency.

In the 1950s, the government had established one sugar factory, later in partnership with the private sector. Plans were announced from time to time to add other factories. On 15 March 2010, the *Daily News* reported that the government was in the process of reviewing four sugar plants (at Pelawatta, Hingurana, Kantale and Sevanagala) in order to raise production. There are some serious challenges to expanding cane farming. One is agronomy, sugarcane yield is fairly low to start with. The other is lack of land for expansion, on which there are some serious environmental concerns. Sugar farming is also labour intensive whereas Sri Lanka has been experiencing labour shortages and rising wages.

On top of these difficulties, further policy challenge emanates from the government's desire to guarantee a farm price for cane and at the same time a maximum retail price for sugar, being an essential food. High price volatility in the world market complicates the matter. Addressing the interests of all the three groups involved (farmers, industry and consumers) with a single policy (tariff) is very difficult. The typical response is for the government to vary tariffs responding to changes in the world market price. In 2009, relief was provided to the only sugar factory in the country by waiving the VAT on its products, at the same time raising import tariff. There was also a media story that the industry used a state-supported credit scheme to encourage farmers to continue growing cane rather than switch over to other more attractive crops. One study has even raised a question on the underlying motive for these interventions. It said that the high protection of the sugar industry was not so much for revenue but to honour an agreement signed by the government in the early 1980s with a foreign private enterprise, a case strikingly similar to the Prima wheat agreement (Bandara and Jayasuriya 2009).

2.4 Exporting coconut industry

The main issue facing this industry is that the price of imported edible oils determines the price of locally processed coconut oil, the main input for the export products. Thus, a high import tariff on edible oils raises the domestic price of coconut oil, hurting the export industry. The challenge for the government is to strike a workable balance for *four* stakeholders: coconut growers; industry exporting coconut products; coconut oil industry for domestic use; and consumers of edible oils (Karunagoda 2010b). The key instrument is import policy, notably tariff. To strike a balance for four stakeholders with one policy instrument is never easy.

About 75 percent of Sri Lanka's annual coconut production is used for domestic consumption and the balance is used for various kernel-based industries such as desiccated coconut, coconut oil and coconut milk powder. Notable export products are desiccated coconut, coconut milk, coconut cream and coconut milk powder. The price of coconut oil is linked to the price of imported edible oil. The domestic edible oil consumption in Sri Lanka is around 165 000 tonnes per annum and more than 50 percent of this is met through imported edible oils (mainly edible grade palm oil and palm kernel oil).

Import tariffs on edible oils are typically varied with changes in the world market prices. Thus, the duty was as low as 5 percent towards the end of 2008 when world market price crashed. It was raised from 28 percent in January 2009 to the specific rate of Rs 40/kg and further to Rs 60/kg in early April, and maintained at high level despite the easing of the global edible oil prices. At its peak, total tariff was estimated to be 125 percent *ad valorem* including customs and other duties (VAT, ports and aviation levy, social responsibility levy, surcharge, nation building tax and cess). As a result, the price of coconut oil in the domestic market also rose, to Rs 200/kg from Rs 135/kg in March 2009, compared to around Rs 110/kg in the world market. As a result, export industries claimed that it became very difficult to compete with the domestic coconut oil industry and still be competitive in the export market. Restrictions are placed on the import of fresh coconuts, primarily for phytosanitary reason but also to protect coconut farmers. Fresh coconut is much cheaper in Indonesia and some other countries, and so in theory can be imported for use by Sri Lanka's export industry.

The industry has claimed that for export industries to come back to normalcy, import duty on edible oils should be around 28 percent (as was in December 2008). With that level of tariff, total duty will be about 65 percent and will bring about a workable balance for the export industry, consumers, local coconut oil industry and growers. Another demand of the industry is for predictability of the import regime. The industry complains that in 2008 the duty was revised as many as five times and 2-3 times in 2009 also. The point made is that such *ad hoc* changes make it very difficult to continue to be competitive in the export market with exporters from other countries enjoying lower and stable prices for raw materials.

Coconut growers of course have the opposite set of complaints, and need to be taken into account in articulating a sound policy.[5] In November 2008, for example, the growers' association complained that as the world price of palm oil crashed towards the end of 2008, import tax was reduced to one of the lowest levels, 5 percent, hurting coconut growers for months because traders imported and stockpiled palm oil for use over the next several months. The association has made a number of suggestions for the government. These include: i) formulating an import tax schedule linked to world palm oil prices with tariff levels adequate for safeguarding coconut growers; ii) preventing exploitation of tariff adjustments by palm oil importers by regulating import volumes (to prevent stockpiles); iii) monitoring palm oil inventory held by traders in the country with a view to regulate quantities held in stock; iv) equitably disbursing of the Cess fund collected for the development of the coconut industry; v) instituting measures which will reduce the high margins retained by middlemen on retail sales in times of scarcity; and vi) directly channelling nut production from state-owned estates to city centre in time of scarcity.

2.5 Indo-Sri Lanka Free Trade Agreement (ILFTA)

The ILFTA is considered to be an important agreement for Sri Lanka in particular. Trade statistics show that trade did surge in both directions since 1999, confirming that the tariff and other concessions exchanged were effective. The agreement provides much more concessions to non-agricultural products, but some agricultural products have been prominent in the export basket of Sri Lanka, notably *vanaspat*i oil (processed vegetable oil), spices, sausages, biscuits and chocolates. Tea is also prominent but faces a binding quota. Based on the experience so far, some issues have become prominent and need to be addressed. These issues also provide lessons for improving similar trade agreements with other countries. The points below on the issues are based on Kelegama and Mukherji (2007).

First, there is a strong perception in Sri Lanka that its exports are unfairly subjected to India's para-tariffs such as port charges and NTBs like discriminatory sales tax which more or less erode the preferential margins granted by the ILFTA. Other NTBs includes periodic directives from India to channel imports from 1-2 designated ports only.

Second, there are complaints with the rules of origin (RoO) requirements. This surfaced prominently for spices (pepper and cloves). Indian producers have complained that spices of non-Sri Lankan origins have surged into India via Sri Lanka, hurting them. They demanded import quotas and entry restrictions through a single port to enforce the RoO.

[5] Palm oil futures news, 25 Nov 2008. http://www.palmoilprices.net/news/sri-lanka-coconut-growers-worried-about-growing-palm-oil-imports/

Third, the case of *vanaspati* oil has brought to the fore the issue of safeguard. As happened in the India-Nepal trade agreement, manufacturers took advantage of the large differential on palm oil tariff between India and Sri Lanka and exported processed products to India duty free under the agreement. This led to a surge in exports of *vanaspati* and bakery shortening and margarine (from 10 000 tonnes in 2004 to 170 000 tonnes in 2005), inviting complaints of injury from the Indian industry. Eventually, India enforced "rigorous" safeguard measures like an import quota of 250 000 tonnes per year and canalizing imports through an Indian parastatal.

Fourth, there is a perception in Sri Lanka that India has restricted the import of some products in which the former has a comparative advantage, tea being seen as the main victim. The agreement has a quota of only 15 million kilograms of tea. Tea also faces difficult issues on RoO and imports can take place only from the Kochin and Kolkata ports. In effect, only a meagre 3-4 percent of the quota is exported, which amounts to less than 1 percent of Sri Lanka's total tea export.

2.6 Domestic support measures

Under the WTO Agreement on Agriculture, Sri Lanka does not report trade-distorting domestic subsidies (the Amber Box), claiming implicitly that such subsidies are within the *de minimis* limit. Some outlays are reported under Article 6.2 (subsidies for small and resource poor farmers), mostly for fertilizer subsidies. On export subsidy, Sri Lanka reported some outlays for reducing the cost of marketing (under Article 9.4), mostly for fresh fruits, vegetables and flowers. Overall, the notified outlays are very small relative to the value of agricultural production. Outside of these notifications, there are many government programmes for agriculture, most of them being the Green Box type.

Investment on agriculture is a major determinant of competitiveness and therefore the issue of appropriate trade policy is also linked to the allocation of the limited resources. One policy issue is the allocation between investment and subsidy. The other is allocation across various products. This is the subject of trade support measures or Aid for Trade and discussed in a subsequent chapter. The following points illustrate the links between investment (and subsidies) and the choice of policies, both general and product-specific as were covered above.

- Whether or not to impose some export tax or cess for raising fund for commodity development, and if yes, how best to allocate/utilize the resource?
- To what extent should export products be assisted through WTO-compatible subsidies to reduce marketing costs (Article 9.4), and to grant various incentives like tax exemptions to export-oriented industries?
- Should the government provide subsidies and other forms of assistance (e.g. interest subsidy) when import prices fall and farmers/industry suffer, and to what extent?

- How best to balance support/subsidies across crops? It was noted above that a bigger focus on rice self-sufficiency was one reason for the neglect of other food crops.
- How to determine the extent to which the government should support/ subsidize sub-sectors like milk and sugar that have lost import competitiveness considerably, where self-sufficiency rates are very low, and face binding constraints for reversing these trends?

3. Additional cross-cutting trade issues

Section 2 discussed a number of issues and policy interventions, covering both specific products and some cross-cutting issues. In addition to the observations made there, this section summarizes three cross-cutting messages coming from that analysis as further inputs to the process of articulating appropriate trade policy.

Fair and rules-based trade policy for addressing multiple objectives

The review of trade policies on basic foods in Section 2 showed that the main challenges faced by policy makers – and the main complaints of the private sector - are over two issues: i) *ad hoc* changes in trade policy, notably import tariffs; and ii) the level of the tariff itself. Both are related. In large part, the difficulty arises because a single instrument (tariff rate) is used to address the interests of at least three stakeholders along a value chain - farmers, agro-industry and consumers. For some products, two prices are fixed along the value chain, the farm price and maximum retail price. Even if a balance is maintained at a given point in time, this is easily destabilized by exogenous shocks, and there are several of these - high price volatility in the world markets, exchange rate changes, production shocks and change in governments. For some products, there are strong cross-commodity linkages, e.g. poultry and maize, and palm oil and coconut oil. Faced with the shocks, policy makers find themselves in a situation where they frequently change and adjust instruments (type of tariff, quota) as well as the level of the intervention (tariff rate). This creates an environment of uncertainty and confusion for the private sector, and in the process also hurts the export sector.

Despite the complexity of the policy problematic, and intense media attention, it is striking that no serious analyses were found on the issues. This makes it very difficult for a paper like this, based mostly on review of studies and evidences, to discuss the matter further. It must be the same for the policy makers also.

One issue for urgent analysis is the system of fixing maximum retail price for essential food products like poultry, sugar and milk powder. One could start by asking whether these are essential foods? What are the resource costs and other externalities of a policy trying to maintain retail price for these products? There is a large database available from national household budget surveys that need to be utilized for analyses that would provide guidance on these questions, including on alternatives like targeted food subsidy schemes.

If both the farm and retail prices are to be administered, the margins in between need a very close scrutiny. This is about market efficiency and competition, and investment on infrastructures (see below). In Section 2, some complaints from the private sector were noted that the government does not allow adjusting retail prices when farm prices are changed, or when tariffs or other policies destabilize the existing (agreed) margins. Other than making adjustments in an *ad hoc* manner, there is no clear guideline on how the government should respond in such situations, not just with tariffs but also with other instruments (e.g. VAT, subsidy).

The above illustrations point to the need for formulating rules and procedures for policies that are seen by all as being fair as well as rules-based (see Weerahewa and Kodithuwakku 2010 for an assessment of the recent trade and pricing policies during the global food and financial crises. This is not easy but doable as the issues are well known and necessary database and expertise exist.

Some views were found in the policy literature and the media for rules-based policy regimes. One of them is to have some variant of a variable tariff regime where tariffs vary in a predictable manner in response to world market prices so that import prices are stable around some desired level of protection. Such a scheme was followed by Chile for some products (the price band policy) as well as some other countries in that region. The problem is that this was not found to be WTO-compatible. What is compatible is for the government to vary tariffs in an *ad hoc* manner, but then it will fall short of being predictable. Nonetheless, these ideas deserve some serious analysis.

Another scheme that was floated in some media reporting, quoting the poultry association AIPA, resembled like an "absorption agreement" that Colombia and several other countries had implemented (some still do) whereby the domestic industry/trader agrees to purchase from farmers their produce in specified quantities and prices in return for something else from the government (e.g. access to import quota). In Sri Lanka, the AIPA had said once that it would ensure the purchase of all maize harvest at a price fixed by the government (and also support the government's effort to increase maize production) in return for low tariffs for maize for the industry's needs for feeds. This method is also not WTO-compatible, but variants of the scheme that could be made compatible could be explored.

These are the types of alternative schemes that need to be analysed in order to articulate appropriate trade policies and to avoid the continued divisiveness and frequent and *ad hoc* changes in policies for the 7-8 sensitive food products. It seems that adequate efforts on analysis and consultations have not been made.

Recognizing the limits of trade and pricing policies in the face of binding supply-side constraints

A widely held view in Sri Lanka is that the performance of the agricultural sector is constrained by a wide range of supply-side, infrastructural and institutional impediments that are too serious to be overcome or offset by trade protection and pricing policy alone. This may be the case in particular in the sugar and milk sub-sectors. The argument is that where supply response to price incentive is zero or close to zero because of these other constraints, trade and pricing policies are not effective. In practice, it is exceedingly difficult to determine supply response and so to decide where trade and pricing policies cease to be effective in stimulating the sector.

Public sector support to agriculture is acknowledged to be too low, most likely in the range of 3-4 percent of the agricultural GDP. If so, this is obviously one main reason why the sector is suffering on supply-side capacity from multiple weaknesses like underperforming research and development, limited use of improved seeds and plant varieties, high transaction costs, poor market infrastructures, and structural barriers to agricultural performance (including state ownership of land). A subsequent chapter focuses on agricultural support measures.

Trade and poverty alleviation – transmission of benefits through the value chains

The impact of trade on poverty is a hotly debated matter world wide as the channels through which trade and trade policies impact on the poor are not clearly understood. Indeed, many trade-related interventions are made in the name of the poor. Trade-poverty linkage is also a debated issue in Sri Lanka and some studies have been undertaken. Overall, there is a feeling that while trade has benefited the economy considerably, rural poor have not gained through trade, especially those associated with the food production sub-sector.

Furthermore, it is also widely held that the benefits of trade are largely captured by market intermediaries in the value chains, and not by farmers and rural poor. In the case of exports, some studies have found that while trade expanded considerably, the real farm price of the exportables received by farmers has not changed much, and indeed this was found to decline in many instances with some exceptions like that for rubber after 2001. Among producers, small farmers in particular tend to fare worse generally.

Similar view is widespread in the case of importables, where again higher prices resulting from tariff protection are not said to be transmitted down to small farmers but captured by market intermediaries. One reason for this is that farmers make distress sales after harvest and only those who procure and stock benefit from higher prices. These are often product- specific and so can be resolved only through careful empirical studies. Rafeek and Samaratunga (2000) find that for rice, consumers have benefited from Sri Lanka's trade liberalization at the cost of producers. Such analyses are not easily available for other commodities, making it difficult to get a fuller picture of the impact of trade liberalization. The balance of the view in the research community seems to be that the transmission of trade policy objectives of higher prices to small scale producers is not clear. There are very few studies to debate this matter with facts.

The impact on the poor, especially urban consumers, of policies that fix maximum retail prices of essential food products is also not clear for lack of empirical studies. To the extent that these measures contain price rise, all consumers benefit but the rich benefit proportionately more, which may not be the goal in the first place.

In summing up, there is obviously a need for a better understanding of the link between trade policies and poverty. While studies by outside agencies and researchers are helpful, the government needs to lead the process. One response would be to put in place a monitoring system that generates data and indicators. For example, for export agriculture the employment created and wage rates in the estate and plantation sectors, and the share of the export price received by small holders would be those indicators. This is doable. In Ghana, for example, the government had set a target several years back that cocoa farmers should receive 70 percent of the export price. A monitoring system was put in place and interventions fine-tuned, finally reaching that target recently. There is also a need for more value chain analyses because this framework enables quantifying the margins and gains and losses at different points in the chain, thus helping to identify corrective measures.

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Sri Lanka - Mainstreaming trade policy

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1. Introduction

For decades after independence, Sri Lanka's image has been one of a "welfare state" characterized by programmes like generous food subsidy schemes and universal, free, publicly-managed education and healthcare systems. Rice subsidy was the most well known of these programmes. Attempts to introduce changes, even small, to this scheme at various times, for budgetary or political/ideological reasons, have met with political tensions and civil disruptions. The scheme was at the centre stage of politics and policy until its elimination in 1977. The 'rice politics' also symbolized the competition between traditional, low-productive rural sector and the modern, market-oriented, capitalist plantation and manufacturing sector. This clash between the two sectors was also aligned to a large degree with the political interests of the two main political forces in the country and was to manifest in different ways in the ensuing years (Athukorala and Kelegama 1998).

Understanding changes in economic policies requires examining the broader contextual political economy than merely describing policy episodes. This applies even after 1977 when a different economic course was chosen. As in a majority of countries around the world, political parties in Sri Lanka are also divided into two broad camps on economic policies – the right-of-centre and the left-of-centre. Development visions and policies reflect these positions. In the post-1977 period, liberal open-economic policies have been the basic framework, but governments have at times attempted to blend this with concerns like poverty and small farmers, at one time also with "free economy with a human face."

Sri Lanka was engaged on the PRS process since late 1990s. This paper examines the experiences gained in that process and lessons learnt in trying to formulate consistent strategy and policies as regards overall development goals and aspirations on the one hand and sectoral trade and agricultural policies on the other. It will be seen that the PRS process provides a colourful testimony to the difficulty faced by development planners in arriving at harmonious policies. The paper also summarizes experiences with attempts on inclusive policy making process through stakeholder consultations.

The next section is the substantive part of the paper. It describes the PRS formulation process since 1998 and discusses various difficulties encountered and issues raised that need to be addressed. Section 3 presents some concluding remarks.

2. Experiences with PRSP formulation and issues on trade mainstreaming

This section has five sub-sections. The first three cover Sri Lanka's three PRSPs. The narratives cover both the PRS formulation process and the underlying issues. The last two sub-sections address two cross-cutting themes: the issue of trade mainstreaming in PRSPs; and inclusive policy making process through stakeholder consultations. Before the first PRSP is introduced in section 2.1, it is useful to note the evolution of the process and key policy documents formulated by various governments since 1977 (Box 1).

2.1 The First PRSP – Regaining Sri Lanka, 2002

The PRS process

The PRS process began in 1998 with work on the elaboration of a Poverty Reduction Framework (PRF). For this, a Steering Committee, a Consultative Committee and several working groups were formed. The first PRF draft was presented and discussed in May 2000 with 35 leading NGOs and community-based organizations. Subsequent stakeholder consultations took place in December 2000 (the first Development Forum) for which a draft PRS (GoSL 2000) was made available. This was met with limited success in mobilizing external resources. However, the consultative process continued with the aim of soliciting views and cooperation of all partners who have a stake in the development of the country. The PRS process was supported by several donors, notably the UNDP, World Bank, IMF, GTZ and ILO.

However, the PRS preparation process was gradually overshadowed by other events – the conflict in the country and also early election in December 2001. The new government attached less priority to the PRS process but the process continued in a limited form, with further stakeholder workshops and a second Development Forum in June 2002. Finally, in December 2002, the PRSP was submitted and presented as an annex to the government's economic reform programme entitled "Regaining Sri Lanka: Vision and Strategy for Accelerated Development" (RSL in short) (GOSL 2002). Very little information about this document was divulged to the public, parliament, or even many members of the government. It was ultimately submitted to the IMF and World Bank in December 2002 as the PRSP. The RSL was transformed into a PRSP by grafting onto it the 2000 draft PRS document. The PRS formed Part II of the RSL and newly developed Part III contained Action Plans purportedly integrating Parts I, *Vision for Growth* and II, *Connecting to Growth: Sri Lanka's PRS*. Part III was prepared through a Working Group mechanism headed mostly by business and industry members hand-picked by the new government and assisted by a team of consultants. This enabled the government to claim that the RSL was prepared through an extensive consultation process, though no consultations took place on the vision of the document contained in Part I.

In the preamble to the PRSP, the government declared that its **"**single minded priority is to overcome the debt crisis", a major issue then. This provided the rationale for the strict austerity measures followed in the subsequent months. As for poverty reduction, the government position was that this is possible only through accelerated economic growth at 8-10 percent rates, and not the usual 4-5 percent.

Following the submission of the PRS to the World Bank and IMF, negotiations began for PRS-related loans and facilities (PRGF, EFF of the IMF, PRSC, and so on). The response was positive and Sri Lanka started to receive funds for the PRS implementation (see Venugopal 2006 for details on the process). Consistent with the objectives and priorities of Sri Lanka's PRS, it was decided that the PRSCs would support reforms in two major areas: i) accelerating economic growth and supporting private sector development; and ii) strengthening governance in the public sector and improving the welfare system. Furthermore, the PRSC proposed to help the government in the following areas (World Bank 2003):

1. Move forward with the structural reforms, create conditions for accelerating economic growth, and send a strong signal to the private sector.
2. Continue fiscal consolidation and also have some fiscal space for the priority PRS programmes; and
3. Improve public sector governance, and strengthen institutional framework and capacity in the management of public resources.

Commentary – poverty, agriculture and trade issues in the PRSP

A critical assessment of the World Bank/IDA document on the first PRSC clearly shows that the objective of the credit facility was supporting an ambitious reform agenda, similar to a typical SAP, and not necessarily meant for any strengthened poverty focus. The inclusion of the PRS document in the approval documentation is misleading on this point. Indeed, the CSOs then alleged that the use of PRSP in

Box 1:

Key national development and sectoral policy papers

May 1977 to Aug. 1994 - Government of the United National Party (UNP)

- *National Agriculture, Food and Nutrition Strategy: A Change in Perspective*. Ministry of Plan Implementation, June 1984
- *National Agriculture, Food and Nutrition Strategy,* 1984 – 1988. Under the leadership of the National Planning Department of the Ministry of Finance and Planning.

Aug. 1994 to Sept. 1999 - Government of the People's Alliance (PA)

- *Policy Statement of the Government* - 1995, Ministry of Finance and Planning.
- *National Policy Framework for Agriculture, Lands and Forestry*, 1995-1998, Ministry of Agriculture, Lands and Forestry.

Oct. 1999 to Nov. 2001 - Government of the People's Alliance (PA)

- *Poverty Reduction Strategy (Draft)*, 2000 – prepared under the leadership of the External Resources Department of the Ministry of Finance and Planning.
- *Vision 2010*, Prepared by the National Planning Department of the Ministry of Finance and Planning in May 2000 and completed in 2001.

Dec. 2001 to Apr. 2004 - Government of the United National Front (UNF)

- *Regaining Sri Lanka* (with the PRS 2000 as an addendum), Dec 2002, the national development policy framework of the Ministry of Finance.
- *Agriculture Policy*, 2003-2013, in 2003, Ministry of Agriculture, Livestock and Samurdhi.

May 2004 to Nov. 2005 - Government of the United Peoples' Freedom Alliance (UPFA)

- *Sri Lanka New Development Strategy: Framework for Economic Growth and Poverty Reduction*, 2004, NCED, Ministry of Finance and Planning.

Nov. 2005 onwards - Government of the UPFA

- *Mahinda Chintana: Ten-Year Horizon Development Framework*, 2006–2016, Department of National Planning, Ministry of Finance and Planning, 2006.
- *National Agriculture Policy*, Sept. 2007, Ministry of Agriculture Development and Agrarian Services.

the RSL was only to satisfy the requirement for receiving PRSC, and there is hardly any mention of the poverty impacts of the proposed reforms. Some argued that although the RSL goes in the name of Sri Lanka's PRS, it is obviously a package of economic reforms designed to carry forward the SAPs that the WB and IMF have been imposing on Sri Lanka over the last two and a half decades, under different names (MONLAR 2003).

All subsequent loans and facilities did mostly focus on a programme of accelerated reforms in areas like labour market regulation, property rights in land markets, privatizing the power and banking sectors, and rationalizing the civil service. The GoSL also undertook a speedy process of implementing the economic reform programmes - in all, 36 new laws were introduced as part of the 2003–06 programme.

The process of formulation of the 2000 PRSP is important because this was the only time when a broad, nation-wide consultation process was set in motion for the preparation of any national development plan. The consultation itself is considered to be of a limited nature, mainly soliciting feedbacks on completed drafts from technical experts and line ministry officials. The process was criticized for not being a genuine desire to seek inputs but merely to satisfy a donor demand. Indeed, the preparation process was led by the External Resources Department of the Ministry of Finance and Planning, and not by the Department of National Planning that traditionally has the mandate for such a work. The final draft of this PRSP was ready by 2000 but was not formally presented to donors. One message of this PRSP was that the government's role is to create an environment which stimulates the participation of all groups of society in the realization of economic growth, and reflected a view that the government should not try to directly stimulate the process of poverty reduction. What was formally presented to the donors was the RSL strategy of December 2002, which was formulated without any comparable consultation with the public, or even within the members of the government party.

There was some acknowledgement that the PRSP did not address much poverty issues. For example, in their Joint Staff Assessment (JSA) of the PRS, the World Bank and the IMF noted that "the overly broad discussion is not always grounded in data, which makes it hard to quantify the major impediments to poverty reduction. This in turn makes it hard to link diagnostics and analysis to the setting of policy priorities" (JSA 2003). It also noted that there appeared to be some disconnect between the agricultural sector issues and approach for improving the sector's productivity described in the main text and the Action Plan matrix. For instance, while the main text advocates private sector driven productivity improvements, the action plan appears to advocate continued state interventions.

In presenting poverty diagnostics, the PRSC noted the following points. Low labour productivity in agriculture is the major factor behind persistent rural poverty.

A dominant constraint to raising productivity is said to be excessive government intervention in agricultural commodity and factor markets (notably restrictive land policies, with state ownership of near 80 percent of all land, which limited efficient land use and allocation, regulations that limited technology imports, commodity price interventions, continuing emphasis on input and credit subsidies at the expense of more productive public investments, and unpredictable trade policies).

In the discussion of agricultural productivity and growth as a component of the rural sector development, the PRSC also outlined the agreed framework for actions in the area of "Trade Policy" as follows. In order to induce more private investments in agriculture, agro-industry and storage, reduce within-year price fluctuations, and improve food security, the government will need to resist the pressure to continue seasonal altering of tariff rates. Over the short-to-medium term, the government needs to commit to *reducing tariff protection gradually for various agricultural commodities*. This reform will reduce the bias in favour of particular crops (e.g. rice, potatoes, chillies, onions) and thus allow improved domestic resource allocation and reduce the taxation of consumers who are made to pay above-world market prices.

It was further said that with the removal of price distortions, cropping patterns would adjust to changing economic incentives, including shifting from low-value and low-productivity activities (such as rice production) towards commercial production of alternative higher-value crops. To minimize the adjustment cost associated with tariff reforms, other critical policy changes will have to match the phased tariff reductions with measures to lift the constraints on domestic, commodity and factor (land, seeds, technology and water) markets and to improve rural infrastructures. These complementary actions will help ensure that farmers have the freedom and the capacity to alter their resource-use decisions to meet the changing needs of the market.[1]

Despite the close link between poverty and agriculture, the extent and depth of analysis of agricultural trade in the PRSP was limited. Having identified export-led growth as the main strategy, the PRSP relied heavily on trade liberalization. Not only it did not consider domestic agriculture as a source of growth but also failed to consider the impact of trade liberalization on different groups of poor and vulnerable people, particularly farmers producing importables, mainly food. This imbalance in emphasis between export-oriented policies and the domestic food sector was a major defect of the PRSP that led to its widespread criticism.

The whole process was dismissed by many stakeholders in the country as "donor-driven", and that the PRSP was formulated merely to receive funding from the

[1] Annex III. Rural Sector: Enhancing Agricultural Productivity Growth, The World Bank, 2003.

donors. The failure to make decisions on agricultural trade policy reflecting the views of stakeholders was considered to be a significant weakness.

There were many protests to the PRSP from the CSOs. A group of over 125 CSOs known as the *Alliance for the Protection of Natural Resources and Human Rights in Sri Lanka* rejected the proposed PRSP and in a letter to the IMF and World Bank called for more meaningful and substantive negotiations. They asserted that there have not been adequate consultations with the civil society and affected groups during the PRS development process and many reforms are being pushed through without due consideration to putting in place adequate social safety nets. The Alliance alleged that contrary to the Fund and Bank's stated commitment to principles of country ownership and participation that are supposed to guide the PRS process, this document was written to mirror the Fund and Bank's policy recommendations for Sri Lanka. The Alliance demanded that the approval and implementation of the PRSP is halted until it can be redrafted based upon full civil society and social movement participation.

In a paper that explores the roles of the domestic actors and donor community in the evolution of Sri Lanka's post-conflict economic package of 2001-2004, it was even argued that the inappropriateness of this economic package was a critical element that contributed to the overall failure of the peace process (Venugopal 2009). In addition, the government's simultaneous pursuit of fiscal austerity to secure desperately needed concessionary financing from the IMF meant that not only was there very little in the way of a peace dividend to distribute, there were instead cutbacks on subsidies and employment.

The end result was that the government, architect of the RSL, was dissolved prematurely after being in power for only two years and replaced with a new government after elections in May 2004. This government had been supported by a broad coalition of forces, including the left-oriented parties that opposed blatantly outward-oriented, open-market economic policy of the government that was in power since 1977 and became allies in defeating it in 1994. Yet, the economic policies of this new government continued to embrace the same open-economic policies. An attempt to undertake sweeping tariff reform in agriculture by drastically cutting back protection for food products, in 1995 when the Uruguay Round Agreement began, was withdrawn. Nevertheless, the left-oriented coalition parties withdrew support and the government collapsed in 2001. The lack of poverty focus in the reform agenda was a major reason for these political problems, and which influenced the development policy framework of the next government.

2.2 The second PRSP - National Poverty Reduction and Growth Strategy, 2004

The RSL had thus a short lease of life. The new government in 2004 announced a new policy framework titled *Sri Lanka: New Development Strategy*, with a separate poverty reduction and growth strategy imbedded in it. The new strategy was compiled from several background documents prepared then by the new government, notably the *Economic Policy Framework 2004 - Creating our Future and Building our Nation*, and the vision further articulated in the 2005 budget speech. One significant re-focus in the vision and main objective was the recognition of "special consideration given to pro-poor growth strategies" along with the acceleration of economic growth. The new strategy is premised on "pro-poor, pro-growth" income improvement and redistribution policies with complementary participation of a socially responsible private sector and a strong public sector. It was claimed that higher economic growth alone is not sufficient to reduce poverty and a focus is needed on pro-poor growth strategies.

A new PRSP evolved from the above New Development Strategy during 2004 and 2005, called *National Poverty Reduction and Growth Strategy* (NPRGS). However, this policy strategy too had a very short lease of life itself since the term of the President Kumaratunga ended in November 2005. But many elements of this strategy and approaches taken in translating them into actionable projects were used in the preparation of the economic development strategy of the next government headed by President Mahinda Rajapaksa, discussed next. By now, the balance of the political position had shifted away from the previous one-sided attention to liberal policies and export-led growth towards a strategy that also spoke of non-export agriculture, poverty and the role of state.

2.3 The current PRSP - Ten-year Horizon Development Framework 2006-2016

The SLFP leadership that formed the government in November 2005 under President Mahinda Rajapaksa had the support of a broad coalition of parties, including left parties and splinter groups espousing ultra-nationalism. The most important document that influenced subsequent policies was the Election Manifesto of the President, known as *Mahinda Chintana*. It contained many elements aimed at strengthening the role of the government in the management of the economy and scaling up welfare-oriented policies and subsidies, thus deviating markedly from the policies of the past, and indeed even further from the previous UPFA governments (1994-2005).

This election manifesto was transformed into a new national development strategy under the title *Mahinda Chintana: Ten-Year Horizon Development Framework 2006-2016* (THDF) (GOSL 2006), and is currently the main reference document for all national planning, also substituting for the national PRSP. The THDF embodies a strategy of restraining the open-economic framework set in motion after 1977, and zealously followed during the RSL years, by refocusing attention on, *inter alia*, the agriculture sector and import substitution, stronger government intervention in the production system, reinstatement of subsidies, and active perusal of trade policies. The THDF showed a high-level of consideration towards the plight of the farmers and rural producers. While acclaiming widely recognized free-market policy prescriptions as necessary to move the economy forward, it makes space for most of the pledges present in the manifesto such as extensive protection to agriculture producers, reclaiming state ownership of large economic assets and expanding government.

On trade policy in general and agricultural trade policy in particular, Box 2 summarizes the vision and sectoral policy of the THDF. What follows presents some commentaries on these statements.

As regards the statements on the 60 percent tariff and the safeguard, note that this desire to apply 60 percent tariff to protect strategic agricultural commodities is not consistent with the country's WTO obligation, as Sri Lanka's WTO bound tariffs for all agricultural products are only 50 percent. Raising the bound rate is possible but only through negotiations with trading partners, which is often difficult and protracted. No initiative has been taken so far on this. Second, the statement speaks of a liberal trade regime supported by adequate safeguards. This presumably is for the rest of the agricultural products (i.e. other than strategic) but again so far there is no indication of Sri Lanka taking an active role in the WTO negotiations on special safeguard mechanism (SSM) to ensure that what will come out of these negotiations is what Sri Lanka has in mind as an effective instrument.

An issue may also be raised on the position of "adopting stable trade policies". As discussed in the previous chapter, one of the defining features of Sri Lanka's tariff policy for the recent 3-4 years has been frequent variation of tariffs on key

Box 2

Vision and policy of the THDF on agricultural trade

Vision - *An agriculture sector contributing to regionally equitable economic growth, rural livelihood improvement, and food security through efficient production of commodities for consumption, for agro-based industries and for exporting competitively to the world market* (page 3.)

Sectoral Policy - *Adopting stable trade policies: Liberal trade regime supported by adequate safeguards* (page 7.)

By way of further articulating this vision, the THDF states the following on agricultural trade: "*Direct involvement in the commodity market will be gradually reduced and by 2009, agriculture trade policy will become more stable and transparent for the main food commodities. The high rates of specific duties used to protect strategic agricultural commodities will be replaced by a duty of about 60 percent…*"

food products. Indeed, tariffs during 2006-2010 have been most volatile for any period in the recent history. While this gives an impression that the government is actively using trade policy to attain some goals, this practice is not consistent with the declared goal of providing a stable and transparent trade policy. Traders in particular have complained that the government has introduced several new import duty measures labelled as cesses and levies in an effort to circumvent too frequent adjustments in the announced tariff level. Moreover, one other recent practice is also not consistent with the above declared policy – the conversion of many tariff lines into specific rates from *ad valorem* tariffs before. All these point to the government facing continued difficulty in providing a stable trade policy environment. As discussed in the previous chapter, the difficulty emanates from the tendency of the government to use tariff to balance the interests of producers and consumers in the short-term without making efforts to understand the source of the problem and exploring alternative non-trade instruments to address them. And as a last point, applied tariffs on many sensitive products have been found to exceed 60 percent, the maximum promised in the THDF.

2.4 Towards mainstreaming trade in the PRSP

There is some indistinctness about the meaning of the term mainstreaming. A commonly understood meaning of this term is that trade policies should be supportive of the core national development goals such as growth and poverty reduction. It involves the systematic promotion of mutually reinforcing policy actions across government departments and agencies, creating synergies in support of agreed development goals. While a reading of the key national policy documents is very useful, more can be learnt from observing actual implementation also vis-à-vis policy statements in these documents. There are also other ways to conceptualize the relationship and through that to understand the mechanics of mainstreaming. For example:

- Integration of trade policy into national macro-economic policies and poverty reduction strategies,
- Integration of trade strategies into sectoral policies, and
- How trade specialists, poverty experts and sector analysts work together to develop a common understanding of trade policy impacts.

Since being transformed to be an export-oriented economy in the late 1980s, trade policy measures have been an integral part of the national development strategies of Sri Lanka over the last couple of decades. In that sense, Sri Lanka's PRSP was not significantly different from other development strategies announced prior to that. For example, the PRSP observed that "Sri Lanka's economy is highly open, with total trade equivalent to more than 70 percent of the GDP. The economy is bound to become even more exposed to international markets as regional and multilateral trade accords broaden Sri Lanka's market access. The Government is committed to reducing trade protection and establishing a two-band tariff system. Efforts are being made to establish a range of bilateral and multilateral trade accords to expand international market access, with the Free Trade Agreement with India being the first of several efforts to expand market access" (PRSP Ch. 3, Page 4, GoSL 2002).

The PRSP argued for widespread trade reform based on efficiency criteria: "Raising agricultural productivity and promoting commercialization will require a stable and predictable agricultural trade policy regime. High rates of protection for food crops penalize the poor because the vast majority of the rural poor are net food buyers. High and variable rates of trade protection for agricultural products discourage agribusiness investment and confine domestic producers to thin and volatile domestic markets. Government will forge an agricultural trade regime built on predictable levels of tariffs to support efficient agricultural commercialization" (PRSP Ch. 3, Page 33, GoSL 2002).

Thus, it could be argued that Sri Lanka's PRSP, at least in its design, exhibited good practices in mainstreaming trade issues. It has been suggested that trade enters PRSPs in two basic ways (UNCTAD 2004).

1. Projections of export and import growth become a part of the macroeconomic framework.
2. Inclusion of a wide range of trade objectives and trade policies related to those objectives.

Within this approach the focus is identifying a country's trade interests within the context of its development objectives, translating those trade interests into a set of trade objectives and identifying trade policies and complementary non-trade policies that are also essential for meeting those objectives. The essence of this approach is that it requires a two-way mainstreaming of both trade and development into poverty reduction strategies.

Thus, the right question to ask is how did various trade policy options relate to the overall development strategy and what were the poverty impacts of them? The former would have been answered by exploring questions such as in what products and sectors does the country has a comparative advantage, and what are the demand growth prospects of different products and sectors in markets? The latter is related to issues such as the magnitude of local value-addition and externalities associated with these products and sectors and the employment intensity of specific trade activities and their linkages with the rest of the economy.

As observed by the World Bank and IMF while endorsing the first PRSP (the 2002 RSL), the disconnect between the issues and approach for improving productivity of the agriculture sector in the main text, on the one hand, and the recommended actions cited in the Action Plan Matrix, on the other, indicated incomplete attention to following through the chain of reasoning. Despite being soundly supported by arguments in favour of greater liberalization, the PRSP failed to address poverty implications of trade policies, nor adopted measures to minimize the impacts on the affected population groups. However, this does not fully explain the subsequent opposition to and rejection of the RSL by the people. There was also a complex dynamics involving the weak progress in the peace process and pressures from the government's simultaneous pursuit of fiscal austerity in order to secure desperately needed concessionary financing from the IMF and World Bank. The resulting cutbacks in subsidies and employment opportunities severely eroded little support the RSL commanded in the absence of the broad consultation recommended for the PRS process (Venugopal 2009).

The development plan of the present government based on the THDF is claimed to have greater ownership by being completely home grown and having a high degree of country ownership. It attempts to overcome the weak ownership of major reforms undertaken under earlier governments by adopting a more gradual approach to reform. The core of the THDF is to achieve high growth rates through investment in large scale infrastructures and the knowledge economy, and to focus on rural development to help lagging regions.

There is also no evidence that the THDF, including its policies, was based on a sound poverty analysis as called for by the PRS process, and so it cannot also claim to be an improvement over the former PRSPs on this ground. Its proposed strategy to deal with necessary reforms in the agriculture sector is weak, and its recommended solutions risk delaying the inevitable pressure for deep reforms of the sector. While it uses a simpler language that advocates trade liberalization, it did not attempt to discuss options and determine appropriate trade policy in a participatory way drawing upon the perspectives and aspirations of stakeholders. Supply-side issues which facilitate trade and complement trade policy (e.g. infrastructure, marketing etc.) appear to be well covered thereby justifying urgent donor attention and resources. And as a last point, the THDF is also subject to the same criticism as the previous PRSPs in not taking initiative to demonstrate through *ex ante* impact analysis that the proposed trade measures were indeed designed to support poverty reduction.

In the post-1977 phase of liberal economic regime, key sectoral ministries assumed greater control over the process of formulating strategy and policies for their respective sectors. While desirable in many ways, this also runs the risk of undermining consistency between national and sectoral plans on the one hand and among sectoral policies on the other. Likewise, the fact that the two main political parties of the country have somewhat different political ideologies has also influenced the consistency of sectoral policies. Indeed, there have been instances when national and sectoral policy frameworks have undergone changes even when a Cabinet is reshuffled. Policy consistency can also be affected when the Executive President and the Prime Minister come from different political parties, but this has not been a big issue for Sri Lanka because except for two short periods (1994 and 2001-2004) both have been elected from the same party.

It is a common practice in Sri Lanka for a newly-elected government to announce a policy framework based on its election manifesto. This is also evident from the listing in Box 1. There are some downsides of this practice. For example, for reasons of prior policy commitments made in the manifesto as well as time constraints, stakeholder consultations, feedbacks and consensus building gets undermined.

2.5 Inclusive policy formulation process through stakeholder consultation

In the course of the background work for this paper, many consultations were held with experts, stakeholders, officers and industry representatives – in groups and one-on-one discussions – to understand views and positions on appropriate trade policies and trade mainstreaming and the policy making process. With further liberalization of agricultural markets as the primary policy challenge, a series of questions were posed to them to sharpen the focus.

First, stakeholders expressed broad agreement to the definition of trade mainstreaming understood as a mechanism of avoiding policy and programme contradictions and a means of maximizing sector synergies. There was a widespread agreement that many past policies have not been ‘mainstreamed’ in this sense. This was particularly so when it came to national policies on poverty and rural employment on the one hand and trade policy on the other. A majority of stakeholders supported further liberalization of agricultural markets over the medium to long term, although there was a lack of clarity in their views on the length of this period.

Second, as regards tariff policies, a concern was expressed that the pass through of the change in the border measures to lower levels remains incomplete due to non-competitive markets along the chain. A parastatal body (STE) could in theory contribute to creating competitive markets but this too has not worked.

Third, trade and market liberalization over the years have not been as effective as expected, or promised, in improving poverty levels among small farmers and rural poor. For example, the across the board sharp reductions of import tariffs in 1995 with the Uruguay Round Agreement caused a marked decline in national production of several products (notably of onions, chillies and potatoes) but no alternative products or non-farm rural activities were thought of or provisioned for offsetting the negative impacts. An expansion of fruit and vegetable crops, aimed at export markets, to replace the deprotected crops could have been done, for example. In view of this, and similar other experiences, stakeholders felt strongly that trade policy changes should not come in isolation but accompany with a package of measures, e.g. an aggressive diversification programme and non-farm activities supported by credit and other incentives. This lesson was said to be totally forgotten while launching programmes like the RSL and PRSP during 2002-2004. It was felt that while trade reforms were made, the government proceeded to implement a strategy that withdrew support to agriculture, on the ground that the type of agriculture hitherto practiced offered limited prospects for further growth and income.

Thus, on the whole, one dominant point that came from the stakeholder consultations was that there was a failure to mainstream trade policy into national development policy (the PRSP) which assigned high importance to goals such as poverty alleviation in rural areas in particular. In addition, the following points also came out clearly from the discussions.

Policy coordination - This has become very difficult due to the existence of a large number of ministries and agencies with overlapping responsibilities. The consequence of this has been felt on the failure to analyze the full range of the impacts of tariff adjustments. Trade policies typically tried to simultaneously manage the interests of producers (e.g. rice) and consumers (e.g. rice and wheat flour imports). But this does not work when there is an absence of a legally-empowered apex body with capacity to analyse impacts and to moderate adjustments.

Choice of appropriate policy instruments – Another reason for frequent policy reversals, creating uncertainty for traders and others, is inadequate homework on the choice of appropriate instruments. In a value chain context, there is a large set of potential instruments that can be used for attaining certain results, including both trade and non-trade instruments. Some problems are best addressed through non-trade instruments, while others require trade instruments, with some combination essential in other cases.

Communication failure – While changing a policy, it is not enough just to state one specific goal, often vaguely, like raising production. What is needed is also to explain the full range of the impacts expected, based on analyses and facts. If the immediate goal is higher producer price (say 20 percent higher), the communication should also say something about its impact (negative) on consumers and industry, and explain the rationale involved, as well as the timeline of the implementation (to prevent reversals). This process must also include stakeholder consultation.

3. Conclusions

The discussion on Sri Lanka's PRSP experience and the relevant policy environment points to several conditions to be satisfied if robust trade-related measures are to be mainstreamed in future exercises of national development or poverty strategies.

A new poverty alleviation strategy for Sri Lanka must be well grounded on economic realities of the particular development situation faced by it but equally importantly must receive support of the majority of population. The initial PRSP/RSL itself was donor-driven and lacked country ownership as it was not developed through a process that reached consensus and supported by a strong communication strategy. The Medium Term Development Framework that succeeded the original PRSP is based on populist ideas that show a high level of concern to the political interests, but is not well grounded on economic realities in a manner that accelerates growth in agriculture.

A process that ensures full public participation and develops widespread consensus may never be achieved as its implementation results in gainers and losers. A well informed debate on economic policy making for a number of reasons will be beyond the ability of the poor to participate, especially on trade policy that seems so remote from the villages. However, if the poor are empowered by making them clearly understand the role expected of them in the adjustment process and the safeguards put in place to cushion any negative impact that will achieve the objective of reaching consensus and understanding without expecting them to fully involve in the debate. For example, a more practical approach to garner the support of the rural poor would be to explain well to them that the limited role agriculture can serve in increasing their incomes and the implementation of the new policy involves difficult choices such as training and relocating them to new industries and sub-sectors.

But poverty impacts of trade policy must be assessed at different sub-national spheres including regional and sectoral groupings as due to its very nature affected groups are going to be aggregated in different rural regions and an impact such as a rise in unemployment will be experienced over particular regions. Prioritization of poverty pockets such as regions or sectors need to be quickly revealed from such analysis thereby facilitating introduction of rapid remedial measures.

The evidence that high economic growth is the most resolute factor leading to poverty reduction is too strong to ignore. Yet past strategies such as growth first and distribution later carry high risks for sustaining such a strategy long enough to increase the size of the growth dividend. Appropriate safety nets for the affected groups should be integrated in policy from the inception.

Safety nets decoupled from sectoral interventions must be an integral part of the reform process. Reform measures are often sidetracked by such linkages. Given the fact that poverty in Sri Lanka has remained a rural phenomenon, channelling assistance to agriculture has been treated synonymous with targeting poverty. Policy makers tend to resort to such paths for reasons of easy targeting instead of devising safety nets that are too complex to design and implement. However, it is necessary that assistance to agricultural producers affected by changing economic prospects be decoupled from programmes developed for agricultural development.

Trade policies must be informed by long term sector development strategies and kept in place for a period sufficiently long for the response to materialize. Agriculture is known for lagged supply response due to various structural impediments. Therefore, policies once introduced and assessed to be relevant should be maintained long enough for results to be visible. Sri Lanka has been observed to make too frequent changes in policies giving a very short-term character to policies to the detriment of long-term, sector-wide adjustments. There is an inconsistency between what the PRSP says and what is done in practice. For example, the THDF says that "the government will forge an agricultural trade regime built on predictable levels of tariffs to support efficient agricultural commercialization" and yet the recent years have seen one of the most frequent changes in tariffs.

As evident from the first PRSP experience and subsequent national policy making attempts, to ensure agriculture transformation and poverty alleviation, economic growth outside the agriculture sector should be sufficiently strong to create a demand-pull on labour currently engaged in agriculture. Other sector-specific policies such as those aimed at creating a conducive environment for relocation of labour outside of the agriculture will be useful but of limited effectiveness in the absence of such a pull factor. Any development strategy that aims to transform the other sectors of the economy should simultaneously address concerns of those rural masses that rely on agriculture. As observed with the first PRSP, the political influence exercised by the rural population is significantly high relative to its importance in the overall economy, thus jeopardizing any attempt that fails to address their apprehensions. This would be possible if development opportunities are extended to the rural non-farm sector and linkages between rural economies and dynamic markets elsewhere strengthened through an activist strategy.

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Sri Lanka - Articulating trade-related support measures for agriculture

Deshal de Mel and Suwendrani Jayaratne[1]

1. Introduction

Three views in particular came out strongly from the series of expert and stakeholder consultations held as part of the background work that contributed to this paper: i) that agricultural trade is performing well below the potential; ii) many issues on agriculture and trade can be addressed simultaneously if value addition to primary agricultural products could be raised substantially; and iii) Sri Lanka has not been effective in articulating its priorities for trade support measures and in mobilizing resources from donors and domestic sources.

This paper assesses the policy process in Sri Lanka for defining trade-related support measures (TRSMs) and suggests improvements. For this, aside from discussing broader cross-cutting issues, constraints and potential interventions are analysed for two value chains in order to illustrate the issues that emerge. The value chains are fruits and vegetables, and coconut kernel products. Sri Lanka's Export Development Board (EDB) is considered to be the key institution for TRSMs and its five- yearly National Export Strategy (NES) is the main policy document. This paper will review the latest NES (2004-2008). Insights were also gained from interviews with government officials and outside stakeholders, notably those engaged in the two value chains.

The chapter is structured as follows. The next section covers several cross-cutting topics: a picture of Aid for Trade (AfT) from the OECD/CRS database; institutional

[1] The authors appreciate invaluable guidance and advice provided by Gomi Senadhira, Director General of the Department of Commerce, and Madhubashini Fernando for excellent research assistance.

framework governing TRSMs in agriculture and associated policy frameworks; and assessment of the current NES and potential improvements to the institutional structure for formulating TRSM priorities and projects. Section 3 discusses National Export Strategy. Section 4 analyses two value chains as the framework for identifying TRSMs, and Section 5 presents some concluding remarks.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Policy and institutional frameworks for articulating trade-related support measures

The view from the OECD/CRS Aid for Trade data

Given that the scope of the AfT is so wide, covering almost everything in agriculture, industry and trade, the picture from the OECD/CRS database does not reveal much. Agriculture, forestry and fisheries sectors are shown to have received only 5.4 percent of the total disbursement for 2007, and only 1 percent (about USD 1.4 million) of the total for the core AfT – the trade policy and regulations category. On the other hand, an overwhelming share of the total AfT flow was concentrated on economic infrastructures, about 80 percent of the total disbursement. For an analysis focussed on trade and agriculture, this database is hardly revealing. The same database show that Sri Lanka received a relatively higher level of AfT per capita compared with some countries in the region – about USD 8 of disbursement for Sri Lanka for 2007 versus USD 3.2 for Nepal and USD 1 for Pakistan. The data also show that during 2000-2007, over 96 percent of the commitments on agriculture and trade were for analytical and training purposes (seminars, workshops etc) on topics like trade negotiations, SPS/TBT regulations, trade mainstreaming in PRSPs/development plans, trade promotion, strategy design and implementation, business support services, and institutions. Overall, it is not clear if the database correctly reflects the full range of donor support to Sri Lanka. The message is that for the purpose of operationalizing the AfT initiative, there is a need for a comprehensive compilation of all donor support using the AfT classifications but this must be done in Sri Lanka itself.

Institutional setup for managing TRSMs

A view that came up in stakeholder meetings was that perhaps because external support for TRSMs has been modest, there was no elaborate institutional arrangement in Sri Lanka for managing this resource. This was done mostly through ad-hoc committees formed within the Department of Commerce (DoC) of the Ministry of Trade (MoT). But recently, measures have been put in place to creating a standing national committee on AfT. An ad-hoc committee functions in the DoC with a focus mainly on two categories of AfT: *Trade Policy and Regulations* and, to a limited extent, *Building Productive Capacity.* This committee includes both public and private sector actors who deal directly with trade policy and trade promotion issues. The limitation in the mandate is due to the need for differentiation between AfT and general development assistance. The other two AfT areas, *Economic Infrastructure* and *Trade-Related Adjustment*, are handled by the Finance Ministry. The DoC is the key implementing and coordinating government agency for trade policy, including trade negotiations at bilateral, regional and multilateral levels. The DoC organizes meetings of experts and stakeholders as required for preparing for these negotiations.

While the DoC is the apex body for negotiations and trade policy process, the EDB, also under the MoT, is the key institution handling export promotion. However it has no direct mandate to deal with TRSMs. But then its five-year NES, formulated in cooperation with the private sector, provides an important framework upon which trade policy functions, and this is a key framework for identifying necessary TRSMs.

The National Council of Economic Development (NCED) is another important body for trade policy formulation. It was formed to institutionalize stakeholder consultations in policy formulation, bringing the public and private sectors together to contribute to a coherent national policy formulation process. The private sector in this case is considered to include the corporate sector, SME sector, development partners and civil society. The NCED is directed by the Council Members, and headed by the President of Sri Lanka along with the board of management headed by the Secretary General of the Council. In this framework, there are a total of 24 clusters under six major themes as follows:

1. Policy reform/special projects (MDGs, legal reform, public sector reform, private sector reform).
2. Financial Sector (taxation, financial sector reform, capital markets, investment promotion, trade and tariffs).
3. Development (tourism, apparel, SME, rural development, agriculture, livestock, exports, IT).
4. Public services/utilities (education, health, transport, petroleum and gas, water supply, telecom).

5. Infrastructure (highways, power, irrigation, airport and sea ports, housing).
6. International Cooperation (donor community, SAARC region, Far East, EU, North America, Middle East and Africa).

Each cluster committee has two co-chairs, one from the private and the other from the public sector (usually at a ministry's secretary level). Each cluster is meant to identify impediments to national development under its jurisdiction based on feed back from the private sector. It would then provide possible policy actions to the relevant implementing ministry, line agency or private sector actors based on further consultations and analysis. The cluster is also responsible for monitoring the implementation of these policies. The international cooperation clusters also provide a potential avenue for coordination and consultation to channel in external assistance to help alleviate identified impediments. Therefore in theory the NCED export cluster provides an institutional structure to formulate TRSM priorities in Sri Lanka. However, a weakness in the NCED has been the fact that the clusters tend to be burdened with micro level issues and this has eroded the resources available to focus on policy issues.

Note that trade/tariff issues fall under the Financial Sector cluster while exports and agriculture issues under the Development cluster. This could lead to some inconsistency in policies. For example, trade/tariff policies may be formulated with a focus on revenue and price stability, while undermining the role of tariffs for agricultural development. The potential inconsistencies from separating tariff/trade and exports into two clusters should be smaller than in the above case.

Considering the institutional structures dealing with trade policy formulation in Sri Lanka, there is no established dedicated institutional mechanism to identify, prioritize, formulate and implement strategies specifically for TRSMs as a whole (or externally financed AfT). But some institutional foundations do exist, and it is important to use them, e.g. the EDB's NES for identifying constraints to export enhancement and the NCED for stakeholder consultations and links to donor organizations. And lastly, the weaknesses in these structures, such as secretarial capacity of the NCED, could be consolidated by existing structures such as the DoC.

Policy framework for trade and TRSMs

The brief below makes a point that while there are several institutions, encompassing multiple stakeholders, involved in formulating trade policies and in identifying the TRSMs, the concern as it stands is that trade policies tend to be identified in isolation and there is no single over-arching policy document that could be cited as Sri Lanka's trade policy with a clear vision for trade development and strategies required. It is argued that having such a document is important for *inter alia* comprehensively mapping the impediments to trade development in each sector or sub-sector and identifying the overall needs for TRSMs on a prioritized basis. It is also important that the ownership of such a document lies with a key government institution dealing with trade policy formulation and implementation.

The economic development framework of the current government is articulated through the *Ten-Year Horizon Development Framework 2006-2016* (THDF), the *Mahinda Chintana*. It is an elaboration of the election manifesto of the current President, Mahinda Rajapakse. While there is a reference to enhancement of trade, it was not meant to deal with implementation strategies in detail and is more of an exposition of the government's vision rather than a strategy with regard to trade. The broad objectives include improving market access, encouraging export diversification, promoting backward integration and value addition, and also improving the trade regulatory environment to ensure a level playing field for imports and local products.[2]

As said above, trade development strategy is not found in a single document but scattered across several papers, typically in sectoral papers of ministries and agencies. The most important of these is the NES of the EDB.[3] There are also sub-sectoral or product-specific strategies formulated by respective boards and associations, e.g. Joint Apparel Association Forum (JAAF) and Sri Lanka Tea Board, other export associations and chambers. Often, these bodies formulate development strategies in coordination with the government, but nevertheless they are separate documents.

On agricultural trade, the THDF lays emphasis on food security, raising farmers' incomes and moving towards commercial agriculture, high value crops and improving the value chains of agricultural products. The prime strategy for agriculture is to attain competitiveness in production and marketing through increased productivity, research and value addition. Also stressed is stable trade policy, with a liberal trade regime and adequate safeguard measures.

On investment on agriculture, the THDF envisages that the government sets aside for the non-plantation sector 33.4 percent of the total fund for fertilizer assistance, 21.9 percent for rural credit and financing, 15.6 percent for marketing facilitation, 12.5 percent for bio and soil research, and 2 percent for technology research. The total financing requirement for the agriculture sector for the 10-year period was estimated at Rs. 245.3 billion of which Rs. 120.3 billion was said to be available and the gap of Rs. 125.1 billion to be met from other sources (government, donors, private-public partnerships, private sector etc). Being an elaboration of an election manifesto, trade issues in the THDF are mainly limited to the vision and broader macro-level issues, and not micro details and prioritization that typically come from

2 The THDF is discussed in more detail in the previous chapter on trade mainstreaming.

3 EDB (2004), National Export Strategy 2004-2008. Sri Lanka Export Development Board, 2004.

detailed analysis of constraints from value chain studies. Thus, for operationalizing TRSM, one needs to go beyond the THDF.

Quantifying AfT flows and making these responsive to Sri Lanka's priorities

While the DoC is the focal point for AfT, the national focal point for all ODA is the External Resources Department (ERD) in the Ministry of Finance. But then in practice the ERD has largely a reporting and coordinating role, whereas the aid itself is channelled to trade-related activities through line ministries and also directly to chambers and NGOs. This has made it very hard to compile the TRSM data. There are a number of donors including NGOs that provide assistance in the TRSM areas. Many of them work directly with the private sector, chambers and civil society, and as a result accurate information on the extent of TRSM flows are not always conveyed to the DoC and the ERD (although some donors, despite channelling assistance directly to non governmental institutions, are known to have ensured that the ERD and relevant line ministries are appropriately engaged). The issue of data is compounded by the hazy distinction between reported ODA and TRSM components within these.

Based on the views expressed in expert meetings held for this paper, almost the entirety of the AfT assistance can be said to be donor driven. The fact that Sri Lanka does not have an apex body for identifying priorities for TRSM and for approaching donors with appropriate proposals has contributed to this situation. The control exercised by Sri Lanka over this process is through bilateral meetings that occur with certain donors on trade issues. At present this is limited to the Joint Commission Meetings (biannual) with the EU, China and the annual Trade and Investment Framework Agreement (TIFA) meetings with the United States. These meetings focus on trade issues and touch on externally financed TRSM as well. However, the TRSM that has occurred through such dialogue has largely been donor driven and reflecting donor priorities. Nonetheless, the implementation of some of these projects, an example being the EU-Sri Lanka Trade Development Project, saw a greater degree of donor-partner coordination and partnership, for instance through the Project Steering Committee which involved national stakeholders and donor representation.

In order to make the externally financed TRSM received by Sri Lanka more clearly reflective of the country's trade policy development priorities, it is essential that the country adopts a more pro-active approach to prioritising TRSM requirements and then approaches appropriate donors based on the priorities, as opposed to being reactive to the approaches of the donors.

3. Assessment of the National Export Strategy 2004-2008

The preparation of a NES is a statutory requirement of the EDB; the most recent NES was published in 2004 and covers the period 2004-2008 (EDB 2004[4]). Although the NES is not specifically designed as a needs assessment for TRSM, it is prepared through a multi-stakeholder dialogue and identifies constraints to exports and suggests potential policy responses in a medium term format.

The NES was produced by a core team which focused on macro level cross-cutting issues that affect the entirety of the export sector, and advisory committees that examined sector specific constraints and designed strategies to enhance exports in these sectors. The core team consisted of representatives of the public and private sectors and economic researchers, further supported by an advisory committee. The discussions and analysis of the core team were informed by a "template tool" developed by the ITC which provided the analytical framework for the NES. Each committee was set up to deal with one of the 27 product and service sectors. Sectors were analysed using value chain studies through technical assistance from the GTZ and ITC. This micro level analysis addressed sector specific constraints and suggested policy recommendations.

A broader stakeholder symposium discussed and enriched the reports produced by the core group and advisory committees to formulate the NES. It identified constraints to exporters, proposed measures to resolve those constraints, proposed implementation of export strategies and set out sectoral priorities and action plans, and also outlined resource mobilization requirements. Although several institutions and multiple stakeholders are involved, there is this concern that trade policies tend to be identified in isolation and there is no single over-arching policy document that could be cited as Sri Lanka's trade policy, with vision, clear strategies and plans, as well as impediments at the sub-sector levels and an overall TRSM requirement and priority.

Since the document is based on a system of consultations in combination with analytical methodologies such as the value chain approach, it provides a template for a needs assessment for TRSM. However the approach adopted by the EDB has some drawbacks, and these need to be highlighted and improved upon in order to achieve a more polished system for the articulation of TRSM requirements in Sri Lanka.

4 National Export Strategy 2004-2008, Sri Lanka Export Development Board, 2004, Colombo.

Cross-cutting macro issues

The focus of the core team was on broader cross cutting policy issues and constraints. These included cost of finance, inflation, exchange rate management, conflict, labour market rigidities, land fragmentation and energy costs. Fairly specific recommendations were set out for many of these general constraints. For each cross cutting issue, there was an overview of existing bottlenecks, a recommended strategy and an action plan outlining each sub-issue, the recommended action, responsible agency, estimated cost and a timeline. However, not all strategy papers addressed each of these issues and some had more vague recommendations than others. For example, the issue of rigid labour law was dealt with in a vague manner ("amend existing labour laws"). Similar criticisms can be made on land laws and trade information. Furthermore, there is no prioritization of the different sectors and issues within sectors. There was also no breakdown of cost estimates (no detailed budget) and no proposals on appropriate funding sources in most cases.

The section on export packaging was a notable exception in this regard. Specific constraints were identified at different stages in the supply chain (manufacturing sector, user sector and distribution sector). An assessment of available resources was included in terms of physical, human, knowledge, capital and infrastructure resources. A sequential strategy was recommended accordingly, responsible institutions were identified and costs were estimated. Among the recommendations was the creation of a donor funded Packaging Development Centre to provide testing and certification services, package design, human resource development and contract packaging. The cost was estimated including provision for a detailed proposal. All in all, the macro assessments made by the core sector lacked precision and detail required to enable an effective TRSM strategy, policy and elements to be derived out of it.

Sectoral analysis – fruits and vegetables

The advisory committees formulated product-level strategies by undertaking a value chain analysis. The sectoral vision for the fruits and vegetable export sector was said to be enhancing productivity, establishing service and marketing centres in provinces, setting up rural production centres through model farm projects, and strengthening links between exporter, producer and collector. Several constraints were identified, which included inconsistencies in supply due to weak productivity of traditional farming systems, lack of extension services and information gaps, and so on. The products identified for this sub-sector were pineapple, passion fruit and mango, manioc, *kiri ala* (taro), capsicum and leeks, tomato, and assorted vegetables. Some the objectives stated are: encouraging consolidation of existing markets, targeting production for ethnic markets, and providing support services to identify cost effective packing, storage, transport and cultivation for competitive marketing.

As a commentary, while a much needed initiative, the exercise also revealed some fault lines. Thus, the overall objectives were very broad, general and top down in nature. For instance, the statement "encouraging consolidation of existing markets" was vague and lacked precision in terms of how such consolidation could be operationalized. The basis of selection of products was unclear (though the selections themselves were valid). The action plan went into greater detail in terms of identifying bottlenecks, but again these did not have analytical depth, and as a result the proposed solutions did not necessarily address the root cause of the problem. Table 1 illustrates these observations.

Sectoral analysis - coconut kernel products

The NES sectoral analyses also covered the value chain for coconut kernel export sector. The objectives in the export strategy were identified as: i) creating closer links between growers, producers and exporters; ii) maintaining annual nut production (three billion at the time); and iii) enhancing value chain benefits of the sector. Interventions identified were: i) encouraging inter-cropping; ii) new technologies; iii) new land for cultivation; iv) R&D; v) branding for Sri Lankan Desiccated Coconut; and vi) reduce duty on value added coconut products. As with vegetables, Table 2 summarizes some comments on the action plans for this product.

Commentaries in Tables 1 and 2 show that even in the disaggregated action plans, the depth of the analysis of the sector was limited and therefore the identification of bottlenecks was not precise enough (more on this below). The remedies suggested were general in nature and did not consider some of the deeper nuances, for example the suggestion for export market diversification for fruits and vegetables did not address the parallel need for investment in preservative technologies. The bottlenecks raised were largely macro oriented, and there did not appear to have been a thorough study of the real constraints faced by the sector.

It is believed that the above was the result of a "committee-style" approach to problem identification rather than an approach based on field survey or selected focus group discussions with people active in the sector. The former tends to result in top down approaches. This is evident in the coconut kernel value chain where the top three suggestions involved state led institutions and interventions and did not address fundamental constraints in the sector. A more research oriented approach, with a precise methodology and greater analytical rigour utilizing both existing literature and primary data surveys (through individual interviews and focus group discussions), is what is required for a more nuanced identification of the constraints in the sector.

TABLE 1:

Fruits and vegetables export strategy and action plans: Summary of the problem identified, action plans recommended and commentaries on the plans

Problem identified	Action Plan recommended	Commentary
a) Inadequate supply due to weak technology use	Raise awareness and training programmes on modern technology	Is the problem awareness or issues such as capital and insufficient land to make technologically intensive commercial production viable?
b) Low productivity	Strengthen R&D	Issues such as who should undertake R&D, what is the commercial viability of it not addressed? And is R&D the priority?
c) Lack of information on production methods	Release state land for commercial agriculture	But this is a mismatch of problem and solution. Another suggestion is to create a central data base on agriculture, but no indication is given as to how these will be communicated to farmers.
d) Packaging concerns due to limited range	Encourage packaging industry to improve product quality	It is unclear as to how this will be effective
e) Packaging concerns due to inconsistent supply of cans and bottles	Remove import duty for the food processing industry	The realism of such suggestions is questionable given the potential opposition from the domestic packaging sector. A phased reduction of tariffs would probably be more appropriate
f) Drawbacks in transport infrastructure	Encourage establishment of cold chain facilities	Will encouragement suffice?
g) High international transport cost	Examine alternative transport modes	However, examination alone will not suffice and how does the significance of international transport cost differ between markets?
h) Inadequacies in market promotion	Diversify export markets for assorted fresh produce	How feasible is this considering distances? Other considerations such as the need for improved preservative technology are not considered.
i) Need for reduction of market access restrictions	Engage in government to government negotiations on the removal of NTBs	The suggestions do not include which markets need to be addressed and what specific restrictions and on what products in terms of priority.

Source: Author for the commentary, the NES for the first two columns

TABLE 2:

Coconut kernel export strategy and action plans: Summary of the problem identified, action plans recommended and commentaries on the plans

Problem identified	Action plan recommended	Commentary
a) Poor fund allocation	Enhance funds for EDB, centralize and improve government resource allocation	No justification given for funding the EDB as opposed to the other coconut specific authorities; no clarity regarding what exactly such fund enhancements should achieve.
b) Need for an apex body	Formation of a coconut apex body	There is a lack of clarity as to how this would improve the current situation and whether it would address the said problems.
c) Lack of clarity and transparency in policy assisting marketing	Improve policy supporting marketing, assistance to encourage value addition, innovations, R&D, new products/ markets, link suppliers with established exporters	All solutions seem to be divorced from the core issue at hand.
d) Shortage of raw materials	Encourage intercropping, new technology such as drip irrigation and better yielding varieties, lower cost extraction methods	Whilst these suggestions were made in 2004, the same issues remain today, giving an indication that the implementation of the sectoral suggestions has not been effective.
e) Oil milling sector not organized	Formalize oil milling sector	The suggestion is to remove stigma attached to jobs in the sector, but there is no explanation as to what steps can be taken to achieve this.
f) Logistics	Remove charges such as for terminal handling, bill of landing charges and other unwarranted *ad hoc* levies	These are unrealistic since these are largely out of the control of implementing agencies; a more practical approach would be to outline the exact bottlenecks in the logistics sector and target a more implementable activity.
g) R&D	Permit universities flexibility to conduct third party financed commercial R&D.	How is this constrained currently? What exactly needs to be done?
h) Lack of product diversification	Analyze market potential for organic coconut products and virgin coconut oil.	Who orders, who does, resources, etc

Source: Author for the commentary, the NES for the first two columns

While the NES had a sound structure and system in place, the measures proposed in the reports have not always been followed. This is largely due to the reliance on the internal annual action plans prepared by the EDB, which are not necessarily in line with the NES. This could be due to a shift in political power between the design of the NES and implementation. This highlights the simple fact that export strategies need to be bi-partisan in nature so that continuity over election cycles is ensured. This is one key lesson for the design of a national strategy on TRSM.

4. Fresh analysis of constraints and priorities – vegetables and coconut kernel products

This sub-section provides fresh analysis of the constraints and priorities for the same two products. The above discussion was based on what was presented in the NES; this one digs further into the issues through a fresh and more structured analysis of the value chains and consultations with stakeholders. The sub-section ends with some cross-cutting observations on value chain as an analytical framework for identifying priorities for the purpose of mobilizing and channelling TRSMs.

Constraints identification – fruits and vegetables

The analysis showed that one crucial constraint limiting exports is the missing, or very weak, linkage in the value chain between exporters and the farming community. As these products are mostly grown in small farms and areas, "collectors" are required for primary purchase. This adds to cost, and a significant one. The President of the Sri Lanka Fruit and Vegetable Producers, Processors and Exporters Association has been quoted as saying that cost could be reduced by as much as 50 percent if the role of the collector is eliminated[5]. A second observation is that price competitiveness is also undermined due to lack of commercial cultivation. The sector has not been successful in combining joint investments in sufficiently large tracts of land to enable larger scale production and cluster farming methods. There are problems of financing as well as regulatory issues. Appropriate mode of irrigation and post-harvest practices are other crucial factors for competitiveness. It is said that poor post harvest transport facilities, particularly packaging, can result in as high as 40 percent post harvest losses. Likewise, "flood irrigation" is not suitable for these products; but need micro-irrigation techniques like drip irrigation.

Transport is yet another big cost because Sri Lanka uses air freight to Maldives while India uses sea freight and so is gaining market share. The main deterrent has been the initial investment cost in chartering a dedicated vessel. When it comes to European markets, in addition to distance issue, there are problems on preservation

[5] The Island, Financial Review, 20 August 2009.

technology, production standards and pesticide residues. This also illustrates weak or missing control over standards and quality due to disconnect between exporters and farmers. Other factors identified but not necessarily ranked as top priorities include high cost of certification in some cases, such as for organic products, investment in quality hybrid seeds, and training facilities for SPS certification.

Some of these constraints have been overcome to some extent by larger-scale elite exporters who have buy-back arrangements with farmers on contract basis and have greater say in production systems and transport measures. It is also interesting to note that in the fruits and vegetables export sector there are different priorities for different markets, each requiring different types of interventions. This provides an important implication for TRSM policy planning as well.

The Sri Lanka Fruits and Vegetables Exporters Association has already submitted a proposal to the EDB on the use of enclosed farming in conjunction with a system of direct logistical linkage between farmers and exporters. The idea is to engage larger farm areas (up to 50 acres) where the bulk is enclosed. The role of the collector is eliminated since the produce will be in one area, and over time the packaging work could be undertaken in that same area. Such a system enables exporters to have greater say in production and transport systems, and meet buyer demands and quality. The biggest challenges are to obtain requisite finance and land. Land regulations in agriculture are very rigid and are a major hurdle. TRSMs could play a critical role in supporting initial investments on a pilot basis and demonstrating innovative approaches.

Alternatively, less ambitious endeavours need to be considered, tackling fewer constraints at a time. One option would be for exporters to collectively set up collection points in rural regions. Successful examples are chilli cultivation in Chillaw and the Thabuttegama Integrated Agricultural Model Project Programme. This project saw 200 farmers with land plots of approximately ¼ acre to an acre produce exclusively for exports, with a small purchasing unit within the village and the exporter providing assistance for drip irrigation and extension services. This project enabled farmers to earn incomes 50 percent higher than other farmers not involved in the project. It also ensured a regular supply of products for exporters. However, issues with coordination and resources have prevented large scale replication of such endeavours.

Constraints identification - coconut kernel exports

This analysis illustrates several issues: i) trade policy complexity as multiple inputs and multiple outputs are involved, with value addition as a major issue; ii) limitations of the “narrow” TRSM interventions (e.g. investment on technology, productivity, capacity building) unless “broader” TRSM interventions are successful (e.g. trade policy, land-use policy, labour issues); and iii) difficulty in channelling TRSM resources through the private sector when multiple private sector operators are involved, not only in the different parts of the chain but also in different products in the same chain, thus reflecting different interests which at times conflict.

The problems and issues facing the coconut kernel industry is discussed in the earlier chapter on trade policy. Briefly, the main problem is the high price of raw materials in the domestic market due to the government's trade policy on edible oils. Sri Lanka produces on average about 2 700-3 000 million nuts yearly whereas the requirement, including for the export industry, is over 4 000 million nuts. Imported palm oil makes up for the shortage. The government applies relatively high tariff on palm oil in order to maintain higher domestic price for coconut oil (for farmers). This has constrained the availability of the raw material at a reasonable price for processing into export products.

There are other problems too. Productivity is low also because of the absence of large scale commercial farming. Current restrictive land policy limits farm size and commercial farming to achieve scale economies. Furthermore, coconut cultivation is concentrated in densely populated areas of the country (Western and North Western Provinces) and so there is intense competition for land and labour, reducing relative returns to coconut cultivation. Quality or standard is also a problem. While the Coconut Development Authority tests samples, the process is quite basic and is done primarily for salmonella, and international standards such as HACCP and ISO are not met other than in a few mills. Reliable irrigation is another problem. The data show that fluctuations in coconut production strongly follow fluctuations in rainfall. More efficient irrigation mechanism, e.g. drip irrigation, is a priority. Likewise, lax management of estates is also an impediment to improving the quality and quantity of nuts produced. As with fruits and vegetables, lack of a voice of exporters on the production process and methods has also undermined quality. More access to export markets is needed. Exports to Pakistan almost doubled due to the Pakistan-Sri Lanka FTA, but exports to India under the Indo Sri Lanka FTA are limited because the kernel products come under the negative list.

The above analysis also indicates that some of the constraints do not fall within the ambit of TRSM, e.g. perennial issues like land, trade policy (on vegetable oils) and labour. On the other hand, some constraints can be addressed through the TRSM resource, e.g. drip irrigation, secondary cropping, enhancing management capacity etc. But unless the former constraints are overcome, solving the latter problems alone will not help much.

Sri Lanka has also not been able to take advantage of high value added coconut products – currently, exports are dominated by desiccated coconut but there is a potential for products such as coconut cream, virgin coconut oil and extracts. If the quantity of fresh nuts available for export is going to be perennially limited as now, the alternative to consider would be to shift to these higher value added products.

It is for this type of paradigm shift that the coconut sector needs a strong response from the TRSM initiative. Finally, private sector is fragmented into different interest groups based on the type of product produced or exported. Therefore, channelling TRSM assistance through the private sector will be a challenge. But a solution has to be found because this will also create a competitive environment in bidding for the TRSM projects. It could also help focus and target funding to a specific sub-sector, although the negative side is that the benefits would not accrue to the entire coconut export sector.

Summary of observations on the value chain process

One conclusion of the analysis, including that which came from stakeholder consultations, is that analyses and consultations for identifying TRSMs should take place at a disaggregated level, typically at the product level, and not at the broad level like "agricultural exports". The appropriate analytical framework for this is value chain studies which have the potentials for identifying both the constraints and potential interventions on the one hand and prioritization of interventions on the other. It is also important that these consultations include all players in the value chain, not just exporters but also farmers, collectors, transporters, and also importantly overseas buyers who provide opinions that can not be found in the country.

Prioritization is essential because resources are limited. This begins with the selection of the value chains themselves, based on considerations like current export value, potential export value (using tools like the ITC's trade map), and significance for employment, poverty and broader economic impact. Another consideration is selecting value chains that have much in common with other value chains so that the knowledge gained is also useful for other products. This analysis includes consultative process. The second key stage where prioritization will be important is in terms of the ranking of the significance of the constraints within each value chain and the prioritization of potential interventions. These may differ in that some constraints may be a priority but interventions may not be practical. To get around this, surveys of micro level stakeholders involved in each stage of the value chain is needed, asking them to rank identified constraints in that particular value chain along with potential solutions.

This value chain approach at the micro level needs to be complemented by a similar process at the more macro level, e.g. to identify trade policy priorities. For this, a process similar to that followed in the formulation of the NES (the core group approach) is needed. Once the constraints are ranked, suggested solutions need to be assessed through macro level stakeholder discussions involving policy makers familiar with trade policy, TRSM and ODA. The core group could also estimate the cost of the interventions, drawing on expertise from donors familiar with Sri Lanka and also based on earlier experiences with externally funded TRSMs.

Once the above analyses are undertaken, Sri Lanka's TRSM needs assessment could be presented in the form of a policy paper which clearly outlines the nature of the value chain in each sub-sector, an explanation of the contemporary export situation in the sub-sector, the top-rated constraints in that value chain, and the interventions that have been prioritized by the macro level core group, along with cost estimates. This policy paper could then be presented for wider, public inputs. The policy paper with prioritized requirements for TRSM in Sri Lanka would then be the basis for presenting proposals to the donors.

5. Conclusions

The analyses of constraints and interventions for the two value chains illustrated the importance of using the value chains framework for articulating TRSMs. Among other things, considering just two sectors showed several common issues and priorities for TRSM which, if focussed upon, has the advantage of creating significant impacts on many other sub-sectors and products also. The importance of enhancing production methods, particularly in terms of irrigation and pre-harvest/post-harvest management were outlined in both value chains.

In other cases, solutions are product-specific and so the approach to TRSM articulation will need to differ from sector to sector based on specific requirements. In the coconut case for instance, drip irrigation is a priority given the current high correlation between rainfall and productivity, whereas in vegetables and fruits, stakeholders suggested that the priority is for pre and post harvest management, and investment on enclosed cultivation. It will be necessary to weigh the costs and benefits of such an approach against alternative approaches to the same problem (such as timings and methods of fertilizer application, alternative types of fertilizer which are not vulnerable to run off and so on).

The need to connect exporters with farmers was also a priority in both value chains. Whilst the fundamental problem here is scattered production due to fragmented land, this can be overcome by farming techniques such as cluster farming. Once again the specific nuances will vary according to the value chain.

Another commonality was the importance of reaching improved product standards in order to penetrate new markets. The investments required for this are significant and can not in general be afforded by the small scale export sector that dominates fruits and vegetables, and coconut kernel exports. This is again a potential intervention for TRSM. While Sri Lanka has already received TRSM in this area, particularly through the UNIDO-funded accreditation programmes for laboratories in the country, the relevant tests that have been covered do not necessarily address the needs of all sectors.

Another message from the analysis of the two value chains is that there are some common issues at the macro level that trade policy needs to address if individual TRSMs are to be effective. Such macro reforms also help other products and sub-sectors. It is also important that the micro-level engagement of TRSM should occur with close coordination of the private sector associations of relevant sectors, with the coordination of the DoC and EDB, and taking into account stakeholder perspectives as identified in earlier consultations.

Sri Lanka's experience with trade policy planning, particularly the NES, has been characterized by a top down approach with limited continuity and a weak record in implementation. A future policy on TRSM should not fall into these same traps. In this light it is important to re-emphasize the value of bottom-up planning through stakeholder discussions and avenues for stakeholder inputs into policy. The most effective method of identifying constraints is to engage and consult with the constrained. This could occur in the form of focus groups or individual interviews. It is also important to consult stakeholders at various stages of the value chain from exporters to farmers and collectors, thereby obtaining a more holistic outline of constraints and possible remedies. There is a need for creating bipartisan buy-in to policy to ensure that there is policy continuity in spite of electoral cycles. Prioritization is also an issue and needs to take into account feasibility from a resource and political economy perspective, to provide the best chance for implementation of well designed policy.

As a final point, this paper mostly discussed export products. But this does not mean that there are no issues on the importables, foodstuffs in particular, and that these do not deserve the TRSM attention. The previous chapter on mainstreaming showed that Sri Lanka's PRSPs and trade policies since 1977 mostly spoke of exports. It is only in the latest PRSP, since about 1995, that traditional agriculture and foodstuffs have received considerable attention. That there are so many trade and related issues on the importables was obvious from the analysis in the first paper in this series, on trade policy. It is unlikely that trade policies – increasingly reflected on the rather "unstable" border and domestic pricing measures as the government tries to address multiple goals – will solve the problems facing the food sub-sectors without working on the problems of productivity and competitiveness, and of infrastructures and marketing. All these deserve considerable TRSM or AfT resources. The TRSM is not limited to the export sector, as the scope of AfT also reveals. It is therefore essential that food issues are also brought within the ambit of discussions on TRSMs.

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Tanzania - Agricultural trade policy issues

Ramesh Sharma

1. Introduction

Tanzania's current national trade policy was launched in 2003. Two years later in 2005, the second PRSP, called *National Strategy for Growth and Reduction of Poverty* (NSGRP) (or *MKUKUTA* in Kiswahili) was also launched. Around the same time, some other policy frameworks have been prepared, notably for agriculture, industry and food security. The process of articulating and formulating trade policies, however, is an ever-evolving process and the debate on alternative views does not stop. Implementation experience and new developments in internal and external environments, e.g. the 2008 global food crisis and the launch of the ECA customs union, keep this process alive and dynamic.

It is in this context that the purpose of this paper is to discuss key agricultural trade policy issues facing Tanzania with a view to contributing to this ongoing process of articulating appropriate agricultural trade policies and trade support measures, and their mainstreaming in national development frameworks.

The background work leading to this and other papers (the next two chapters) under the FAO trade policy articulation project were undertaken by a team of analysts in Tanzania on the basis of literature review, data analysis and stakeholder consultations. About ten national experts contributed to the background work and papers, coordinated by Economic Research Bureau at the University of Dar es Salaam. Many brainstorming meetings were held with government officers, non-state stakeholders and civil society for their views on policies. The background study that contributed to this paper is Hatibu, Cosmos and Chamanga (2010).

As with most countries in Africa and elsewhere, Tanzania's agricultural trade policies also evolved through time, passing through the usual phase of import-substitution with heavy public sector role in the economy to a more and more liberal policy regime. In the past decade or so, the government has formulated a number of policy frameworks, such as the National Poverty Eradication Strategy (1998), National Development Vision 2025 (1999), Poverty Reduction Strategy Paper (2000), and national trade policy (2003). A number of sectoral policy frameworks and plans, such as for agriculture and industry, have also been formulated. The launch of the EAC in January 2005 and the customs union in 2010 are other important developments that will have considerable implications on Tanzania's trade policy options. The next chapter on mainstreaming discusses in some detail these policy frameworks.

The next section of this paper presents selected agricultural trade policy issues, categorized into three groups: policies towards food products and food security; policies towards cash or export crops; and cross-cutting trade issues. These are brief discussions and aimed primarily at bringing out key issues and alternate views. The issues are selected based on their significance and prominence in contemporary policy and debates. Section 3 concludes with a summary.

2. Selected agricultural trade policy issues

2.1 Food policy for food security

Food policy in Tanzania is largely liberalized and a clear vision as well as strategies and policies have been articulated in national policy frameworks, as discussed in the next chapter on mainstreaming. In several cases, this is still on paper only (in policy statements) than in practice, which is an indication of the difficulties faced in implementing policies. The fundamental objective in the food sector is raising food production and competitiveness of the sector. This point is noted next, but then there are a number of divisive policy issues that recur in policy discussions and are important to record.

Raising food self-sufficiency level and exporting food

While not a divisive issue and so not a frequent headline topic as are maize export bans and the size and role of food reserve (SGR), increasing the level of food production and self-sufficiency rates are at the core of the national policy frameworks like the NSGRP and agricultural policy. Although very much a traditional agricultural production subject, trade policy does have some impact on this, e.g. through higher or lower levels of import protection, whether or not the commodity is an ECA sensitive product, and how effective are the rules of origin for free intra-ECA trade.

There is a consensus that Tanzania's food production levels are far below potential given the country's land and water endowments. Historically, policy attention and debates on trade policy have focussed on the export of cash crops and very little on import substitution and on the potential that exists for the export of food crops. The fundamental constraints to expand food production are well known – only 3 percent of the arable area is irrigated, farmers' yields are 20–30 percent of potential yields, and fertilizer application amounts to less than 10 kg of nutrients per hectare. Thus, most agree that with appropriate policies and investments, Tanzania could significantly increase food production and capture domestic market as well as export to the region. The national policy frameworks do recognize these potentials and boosting food production is part of the new strategies. One of the operational targets of the NSGRP is raising food crops production from 9 millions tonnes in 2003/04 to 12 millions tonnes in 2010. This strategy also includes targeting selected food crops as strategic and focussing resources on them.

Several policy issues discussed below have impact on food production potential. These include for example how the ECA sensitive product tariffs are set, adjusted and implemented; what happens to the policy of export bans within ECA but also outside; the operation of the SGR; effective protection for food production relative to that for competing crops; investment climate for private sector to be engaged in food production; and striking a right balance in supporting agriculture through investment in public goods on the one hand and inputs and other subsidies on the other.

According to the Tanzania case study of the World Bank agricultural distortions project (Morrissey and Leyaro 2009), the negative taxation on importables, the basic foods, has been reduced considerably, with the situation shifting to positive support of 10 percent in 1990-94 and 6 percent in 2000-04 (but negative 15 percent in 1995-99). Compared with the support to non-agricultural tradables, the overall relative bias against agriculture has halved since the latter 1980s, from negative 70 percent to negative 35 percent in recent years - much reduced, but still negative and considerable.

Maize export bans[1]

Maize export bans, and related policies, are amongst the frequently commented policy interventions under the heading of food policy or food security in Tanzania (and in east/south Africa in general). While the export of almost all agricultural products is liberalized, maize faces occasional export bans. As the main maize surplus region (southern highlands) borders on northern Zambia and Mozambique, the maize deficit zones, there is a strong incentive for maize export, particularly

[1] This is based on Minot (2010) and various papers in Sarris and Morrison (2010) volume.

during the harvest months. Government policy is to allow the export of maize only when all the regions of the country can be declared to be food secure. As there is almost always a problem of food insecurity in some part of the country (notably in the semi-arid central region), in practice maize exports are banned on an almost continual basis. As a result, maize prices in the southern highlands are lower and more volatile than they would otherwise be. The export ban also presumably keeps the price of maize lower in deficit regions than it would otherwise be.

Most analysts tend to argue against the ban, on the ground that a ban worsens the livelihood of southern maize farmers without harming the rest of the Tanzanian consumers. The 2010 EAC Food Security Strategy clearly states that there should be no export ban on food commodities and products intended for consumption within the EAC region (see below). The sensitiveness of maize in the region is well known – maize is also an EAC sensitive product, and that different EAC members seem to have different views on the maize CET itself (see below). Minot (2010) makes a remark that in a recent seminar in the region, a government official said that export bans would be necessary until Tanzania becomes self-sufficient in maize. The logic of this argument is not that clear and this is an issue that obviously needs more research and debate.

Given the porous borders, export bans are also difficult to enforce and often only raise transaction costs for cross-border trade. In 2008, Kenya's forecast maize deficit was estimated to be over 600 000 tonnes, much of which could have been imported from Uganda and Tanzania. However, Tanzania had an export ban in place while Kenya maintained a 50 percent import duty. As a result of the market shortages, the price rose sharply. Despite the official export ban, 120 000 tonnes of maize was imported from Tanzania (Jayne *et al.* 2009).

A rules-based trade policy for maize

In view of the above, what is to be done to maize, as well as to other staples? Citing the results of Chapoto and Jayne (2009), a synthesis report of a COMESA (2010) policy seminar notes that more active intervention in maize markets has not helped Malawi, Zambia, Kenya and Tanzania because trade barriers and changes in government policy tend to exacerbate price volatility. This has the effect of dampening investment in the maize sector. It was said that embracing open border policies and relying on regional trade to stabilize maize prices could be a win-win situation in terms of both efficiency and price stability. In this regard, a "maize without borders" policy was considered to be an important part of the overall maize government policy that has a potential to considerably stabilize maize price for both consumers and producers.

The classic recommendation is open border policy with government role limited to areas such as market information, promoting competition, investing in physical infrastructures and other public goods and improving rural financial markets to improve the capacity of traders (COMESA 2010). Nevertheless, that seminar synthesis also noted that governments in the region are unlikely to cease intervening in food markets, and thus what is desirable in the meantime is promoting more "rules based" approaches to marketing and trade policy in order to reduce the level of policy uncertainty and price instability associated with it. These include setting clear criteria for changing tariff rates or trade barriers, and preferably reducing trade restrictions and cross-border trade barriers, both regulatory (e.g. phytosanitary standards) and bureaucratic (e.g. border crossing documentation).

Successfully addressing these dilemmas may lie at the heart of the efforts to move to a new post-liberalization regime in which governments retain the ability to influence prices to achieve national food security objectives but within a clear and transparent framework of credible commitment to support long run private investment in the development of markets.

Strategic Grain Reserve (SGR)

The SGR, established in 1991, is a key player in Tanzania's maize market. The objectives of the SGR are to advise the government on food security policy, supply food in emergencies and stabilize staple grain prices. SGR purchases are based on forecast national food balance with a view to maintaining stocks for three months' of consumption. Its capacity is 150 000 tonnes but in practice the amounts in storage have generally been in the range of 50-80 thousand tonnes.

Minot (2010) remarks that the SGR has not been successful in stabilizing grain prices. This is mainly because the volume of purchases and sales in a given year is generally less than 50 000 tonnes, which is negligible compared to the volume of grain produced (5 million tonnes) or even marketed (about 1.25 million tonnes). But the SGR features prominently in Tanzania's national trade as well as food and agricultural policy documents. The 2008 global food crisis has raised the political support for SGR-type response to managing staple food price volatility.

The pros and cons of the SGR have been debated for a long time. On the pros side, one argument is that the demand for maize placed by the SGR enhances the badly-needed market competition among private traders, besides supporting producer prices, importantly so in the remote southern highlands. In addition, SGR is said to offer premium prices to attract more purchases from smallholder growers.

The main argument on the negative side is that the SGR operations create an uncertain environment for private traders, thus undermining one of the government's own objective. In part, this is due to unpredictability in the provision of public funds which determines the scale of the SGR operations. Likewise, the release of SGR grains during poor or off-season precludes price advantages that stockholders would have benefited during high off-season prices. The SGR therefore offers an implicit subsidy to maize consumers at the expense of producers. It has also been argued that SGR procurement, both at border and producer markets, reduces price volatility whereas its releases increase volatility in a manner that the net effect is detrimental to producers. In addition, the SGR is said to suffer from bureaucratic procedures, political interference, under-utilization of capacity, and so on.

The *EAC Food Security Action Plan 2010-2015,* introduced in more detail in the next chapter, has proposed food and financial reserves at the regional level. The target is for each Member to have food and feed reserves of at least for six months by 2015 (from current levels of at least three months). A second target set is for the EAC members to establish a contingency fund for six months' worth of food reserves by 2015. In the light of the above commentaries on the SGR, the doubling of the reserves to six months obviously looks very ambitious.

One argument made by many analysts is that price stabilization should rely much more on trade than stocks, but still in some combination. In the context of a customs union, trade combined with regional, not national, food stocks should in theory serve better the food security objective of the members. There is no end to this debate. Two new developments have continued this discussion – the recent global food crisis and the EAC regional strategy on reserves. These provide the rationale for continued analytical work and reflections.

2.2 Cash crops – addressing negative farm protection and market inefficiencies

There are several recent studies and analyses on Tanzania's export commodities. The summary below is brief and merely presents a snapshot of the evolving pattern of support or taxation to the sub-sector due to policy and other reasons. Useful references on commodity briefs and issues are MoAFSC (2008) and volume 2 of the DTIS report (GoT 2005). The former is a joint publication of the Tanzania Ministry of Agriculture and FAO and provides comprehensive analyses of a number of commodities, as well as trade and other aspects. The latter provides analyses of cashew, coffee, cotton, tea, horticulture, spices and fishery.

The Tanzania case study of the World Bank agricultural distortions project (Morrissey and Leyaro 2009) provides estimates of the evolution of policy-induced distortions for eight cash crops - coffee, cotton, tea, sisal, tobacco, cashew nuts, pyrethrum and beans. The overall average Nominal Rate of Assistance (NRA) for these eight crops has been negative (i.e. net taxation) and historically large: -66 percent in 1990-94, -52 percent in 1995-99 and -49 percent in 2000-04. As for individual crops, for 2000-04, the NRA was high for tea (-91 percent) and cotton (-70 percent), between -45 and -55 percent for beans, tobacco and pyrethrum, and zero or low for cashew, coffee and sisal. Negative protection was fairly similar in

1995-99, as well as in 1990-94, for some of these crops. The fundamental problem seems to be inefficiencies of markets rather than policy induced distortions. What follows are briefs on the commodities covered.

For *cotton*, with high negative NRA, the authors cautioned that it seemed likely that the extent of disincentive is overestimated, and that the significant reforms implemented especially since 2004 should have markedly reduced the distortions by now. For *tea* (with a NRA of about -90 percent), there has been almost no change in the situation for many years. One reason considered for this was the absence of competition due to strong monopsony in the tea industry, with a few companies dominating processing and marketing. For *tobacco* and *pyrethrum* (also high negative NRAs), there was no evidence that the elimination of exchange rate distortions has reduced distortions to incentives, so it was assumed that inefficiencies remain high and farmers receive a diminishing proportion of the export price, with processors most likely capturing the benefits.

The results for *cashew nuts* are said to be consistent with observations that marketing and processing efficiency has increased in recent years, reflecting increased competition. As a result, farm-gate prices have kept pace with the export prices. *Sisal* appears to have been the least (negatively) distorted product, and by the mid-1990s traded freely. *Beans* are the only example of a non-traditional export covered. The results suggest relatively unchanged marketing efficiency so that the elimination of exchange rate distortions is reflected in reduced policy distortions – the NRA declined from -75 percent to -45 percent.

The WTO trade policy review for Tanzania (WTO 2006) provides further information on commodity policies. According to this, to encourage local processing of some export commodities, Tanzania applies an export tax on raw cashew nut and a cess of 20 percent on raw hides and skins. At various times, other taxes and fees were also applied, e.g. a cess and agricultural services fee. On the other hand, import tariff of 25 percent is imposed on coffee and coffee products.

Tanzania has eight commodity boards for cashew, coffee, cotton, pyrethrum, sisal, sugar, tea, and tobacco. They performed several functions such as regulate products, inspect quality, announce indicative prices (minimum farm prices) and collect and disseminate statistics. Up to July 2006, the boards applied a 2 percent levy on exports. Traditionally, the boards have been criticized for their price interventions, distorting markets and harming farmers, e.g. in the DTIS study (GoT 2005).

The DTIS has also identified a number of cross-cutting issues affecting the export crops. The prominent among these were the following: i) the role of the crop boards; ii) excessive taxation; iii) weak agricultural support services; and iv) price volatility. Crop boards had virtually unlimited regulatory power, and had intervened in ways that distorted the markets and hurt farmers. Funding for the boards came from a cess on crop exports levied on producers, but the boards have not always worked in the interest of producers. The key recommendation was for the boards to become independent producer supported organizations representing the industry, while all economic activities are left to the private sector.

The second issue is heavy taxation on export commodities, estimated to be roughly 20 percent of the sales prices. In many cases, local taxes are collected as cess on volumes, which means that per unit tax rate is a much higher percentage of the total price in low-price years than in high-price years - exactly the opposite of what is desirable. Local taxes remain high despite a directive from the Prime Minister's Office that District cess should not exceed 5 percent (taxes are said to have been renamed to bypass this directive). Also, local municipalities have the authority to pass new levies without oversight from the central government. Heavy taxation has resulted in negative nominal rates of protection or negative incentive to produce. There is a need for not only lowering the taxes but also rationalizing these across crops.

The third cross-cutting issue is the need to improve support services to the agricultural sector. In particular, research and extension needs to be strengthened with a view to responding to market demands. And the fourth issue is price volatility. This needs to be addressed urgently as public intervention schemes in the past have not worked. In many cases, such interventions to reduce risks in markets for internationally traded commodities did actually impede growth by ending up taxing producers themselves. Thus, new market-based insurance schemes (e.g. warehouse receipt or inventory financing systems) are being explored.

2.3 Selected cross-cutting issues

Appropriate CETs for ECA Sensitive Products

In the ECA agreement, 31 agricultural tariff lines (at HS8 level) are designated as EAC sensitive products (59 lines in total including all products). Table 1 shows that the CET rates for these products are mostly substantially higher than the 25 percent maximum rate for non-sensitive products. For 11 of the 31 lines (rice, jaggery and sugar products), the CET is a compound tariff of *ad valorem* rates or USD 200 per tonne, whichever is higher. A US$200 per tonne specific tariff on grains and sugar is indeed a very high duty.

Given that members of a customs union rarely have uniform or similar "sensitivity", a common CET can easily be a source of divisiveness as conditions change as regards domestic production, processing etc. As a result, it is normal that governments face varying pressures from economic agents (traders, processors farmers and consumers) for adjusting the CETs (through duty remissions or other

TABLE 1:
Common External Tariff rates for EAC sensitive food and agricultural products

Product	HS Heading number	# lines (HS8 level)	CET %
Milk, cream	04.01/02	12	60
Wheat, meslin	1001.90.20+.90	2	35
Maize	1005.90.00	1	50
Rice [1]	10.06	4	75
Wheat and meslin flour	1101.00.00	1	60
Maize flour	1102.30.00	1	50
Sugar[1]	1701.11.90;.12.90;91.00;98.10;99.90	5	100
Jaggery[1]	1701.11.10+.12.10	2	35
Cigars, cigarettes	2402.20.90+.90;2403.10.00	3	35
Total/average		31	56

Source: Stahl (2005)
[1] The applicable CET for these lines is a compound tariff – the *ad valorem* CET rates or USD 200 per tonne, whichever is higher.

TABLE 2:
Appropriate CETs for Sensitive Products - views from an informal discussion

	Hard Wheat	Wheat flour	Rice	Sugar
Current CET%	35%	60%	75%	100%
Kenya	35 is ok	60 is ok	75 to 35	100 to 10
Tanzania	35 to 10	60 is ok	75 is ok	100 is ok
Uganda	35 to 0	60 is ok	75 is ok	100 is ok
Rwanda	35 to 0	60 to 35	75 to 35	100 is ok
Burundi	35 to 0	60 to 35	75 to 35	100 is ok

Source: Table prepared by the author based on discussions posted in Uganda Manufacturers Association website, cited in the footnote. It is not clear who participated in the discussions; presumably they are traders from the five countries.

means). Despite the apparent significance of the issue, no analysis was found on this topic. However, an informal discussion posted on a website of the Uganda Manufacturers Association illustrates the nature of the debate.[2] Table 2 summarizes proposals on appropriate CET and what follows illustrates the discussion. It shows traders from the member countries making different arguments for revising up or down the sensitive CETs.

For hard wheat, the proposal made was for reducing the CET from 35 percent to 0, arguing that hard wheat is not produced in the region and that customs officials always face difficulty differentiating the two types of wheat. One participant from the country with some wheat production argued that the CET should be reduced to 10 percent but not to zero, while another called for maintaining the tariff at 35 percent so as to retain the space for protection and safeguard, while using duty remissions during shortages. More or less these very arguments were made for other products also, with producing members calling for maintaining higher CETs (and using duty remissions when needed) and non-producing members arguing for zero or very low tariffs (and doing away with the remission system). For products like wheat and wheat flour and industrial sugar, other arguments made were ensuring the availability of cheap raw materials for industry (e.g. for bread manufacturers and beverage industry). Where processing capacities exist, the argument made was for lower CETs for raw materials. In the case of rice, some countries saw emerging opportunities for expanding rice production due to new production policies and higher world prices - and hence a higher CET. Others, with limited production potentials, argued for a lower CET.[3]

Notwithstanding these debates and the complexity of the issues, not a single paper was found that analysed the issues well. Stahl (2005) is an exception and offers some comments. Among other things, he points to the possibility of negative effective protection to some value adding sub-sectors if the periodic remissions are not decided carefully and promptly. A recent newspaper article provides an account of similar concerns (and confusions) raised when a decision was made to lower the CET for wheat for the 2010/2011 season.[4]

Issues on facilitating intra-EAC free trade

The EAC became a customs union (CU) in January 2010 after the end of a transition period in December 2009. This has some implications for some CU instruments.

[2] *Proposals for Review of the EAC List of Sensitive Goods*, Report of discussions, Uganda Manufacturers Association. http://uma.or.ug/index.php/proposals-for-review-of-the-eac-list-of-sensitive-goods. It is not clear from the website who (e.g. traders or manufacturers' or officials) discussed these issues.

[3] Minot (2010) has remarked that one reason Kenya has been arguing for a lower CET on rice (35 percent) was due to pressure from Pakistan that imports large amounts of tea from Kenya.

[4] Op-ed by Francis Ayieko in *Sunday Nation*, 5 Sept 2010.

Several studies have addressed these issues. The following account is based on a brief by the East African Business Council which fairly well summarizes the issues, notably from the side of the private sector.

Internal taxes – With the CU, intra-EAC trade is now duty free. Moreover, it has been agreed that domestic taxes such as the VAT and excise duties shall be paid to the consuming and/or importing countries. But there are still duties that apply to such trade. In order to discourage and end smuggling, there is an urgency to harmonize disparities in remaining domestic taxes by implementing initiatives such as signing and ratifying the agreement on avoidance of double taxation.

EAC Rules of Origin – Effective operation of the rules of origin will continue to be important for two reasons in particular. One is the complexity created by membership in multiple regional economic communities (RECs) like COMESA, EAC and SADC. Second, the modalities for collection and accounting for customs revenue are not in place yet. Unless these issues are sorted out early, the fear of trade deflection will continue to hamper intra-EAC trade.

EAC Duty Remission Scheme – This is also seen as a divisive issue if there is a tendency among the EAC members to use national duty remission schemes, granting different exemptions and remissions outside the EAC. The use of remissions has been considerable in recent years. Granting exemptions often creates unfair playing field for others and undermines competition, thus eroding the effectiveness of the EAC CET as well as EAC Customs Management Act.

Elimination of Non Tariff Barriers (NTBs) – As intra-EAC trade became duty free, there is a fear that NTBs may increase. To prevent this, a more pragmatic approach is needed for eliminating the NTBs, requiring the adoption of an instrument for enforcing removal of NTBs. This will require EAC organs to be empowered to deal with persistent cases of NTBs at regional level especially those emanating from administrative and legislative measures by members such as imposing taxes and levies of equivalent effect to tariffs and bans on imports based on quality and standards.

Multiple RECs – Differences in the CET among multiple RECs like the EAC, SADC and COMESA are also sources of potential trade conflicts among the EAC members. Handling this complexity is difficult, and efforts need to be directed towards a more harmonized CET for three RECs.

Treatment of Export Processing Zones (EPZs) Goods – Under current rule, goods kept within the EAC's EPZs do not qualify for duty free intra-trade once sold within the EAC because goods introduced are generally regarded, for the purpose of import duties and taxes, as being outside the CU. Strict enforcement of this rule is essential to avoid potential frictions.

In summary, there are several issues that could disrupt the smooth flow of intra-trade expected within the EAC and which need to be addressed. Several of the above issues do not appear to be difficult to resolve, as they merely require political will and administrative support.

Addressing cross-border trade

In a recent paper on this subject, Little (2010) presents a comprehensive picture of cross-border trade (CBT), mostly informal, demonstrating the scale, complexity and vital role of this trade in the economies of eastern Africa. The insights provided and issues raised also apply to Tanzania. He notes that despite the significance, CBT suffers from policy ambiguity, misunderstandings and an unwarranted concern that the trade's 'informality' encourages trade in illegal goods and a major loss of public revenue. The following summarizes his major findings.

a) Scarcity of information for policy making - Contemporary CBT in many parts of eastern Africa is not captured in government statistics, and some information is available only through special surveys. This hampers constructive policy dialogue and results in misinterpretations. For this reason alone, it important that market information systems expand to include the coverage of CBT so that policy can be informed by reliable data.

b) Traders' perceptions – It is important that traders' perception about CBT should be an important input for CBT policy. But this is almost never the case. Where such efforts have been made, valuable insights have been revealed for policy. Most of the issues have to do with insecurity, lack of markets, role of the government in 'policing' and taxing CBT, and lack of infrastructure and credit.

c) Administrative and legal ambiguities - There is a great deal of uncertainty about existing policies toward CBT, e.g. what level of administration is responsible for regulating/licensing the activity, and the rights of CBT traders to engage in trade of legal goods. Efforts to counter these shortcomings and to establish more formal policies toward CBT, especially for maize trade, have however been advanced in southern Africa. An example is COMESA's *Maize without Borders* initiative.

Policies that acknowledge and encourage, rather than discourage, regional CBT can capitalize on comparative advantage for different locales, strengthen local food security, increase collection of state revenues and investments in key market and transport infrastructures, and reduce price volatility and market imperfections. By recognizing the importance of CBT rather than discouraging it, governments could expand revenues through customs and tax collection at borders and market towns, and also improve the welfare of the people living there.

Fertilizer and inputs subsidies

Fertilizer subsidies, although not a trade issue in the narrow sense of the term, are covered by the WTO Agreement on Agriculture under domestic support measures. From a development angle, this issue is even more important. In many countries, large-scale subsidies on fertilizers are often blamed for crowding out public investment on agriculture that has a higher payoff for growth and poverty reduction. National policy frameworks like the PRSP and agricultural policies often have statements supporting the provision of incentives and subsidies to farmers and agriculture. The inherent budgetary trade-off between investment and subsidies do not however get clearly addressed. As a result, this continues to be a divisive issue.

Fertilizer subsidies are among the programmes that use up large amounts of the budget. In the case of Tanzania, general fertilizer subsidies were phased out in the early 1990s, only to be granted again in 2003 in the form of transport subsidies, the main aim being encouraging the use of fertilizers in remote areas. From 2008, subsidies have taken the form of a voucher scheme, the National Agricultural Input Voucher Scheme (NAIVS). The vouchers that NAIVS provides to maize and rice farmers subsidize half of the price of a package of improved seeds and fertilizers (with the package providing enough of these inputs for one acre of maize or rice). The NAIVS was implemented in 56 districts in Tanzania's high potential zones for maize and rice in 2008/09, and the plan is to eventually scale up to reach 65 districts throughout the country.

Schemes like these are also known as "smart subsidies", presumably these being targeted programmes, relying on the private network of input suppliers, and for having an exit plan. Only time will tell if these new experiments work and do away with the past problems. The fact that private input supply chains are promoted by the programme, rather than crowded out, is consistent with the strategies of the NSGRP and agricultural policies. As for the cost, these are not cheap programmes. Recently in 2009, Tanzania borrowed about US$144 million from the World Bank/IDA to expand this scheme, the other half of the budget coming from the government. It is in this sense that it is important to keep in mind the cost and benefit of a programme like this vis-à-vis the alternatives like investment (irrigation, rural roads etc).

As said above, Tanzania's NSGRP and trade and agricultural policies mention subsidies and incentives in many places, including credit subsidies. The size and effectiveness of these measures need to be brought within the purview of the discussion of agricultural trade policies because of the opportunity costs of the funds, and second because the effectiveness of trade policy is often linked to overcoming certain constraints in production – hence the important link between policy and investment.

Inefficiencies of the domestic markets and high costs

This is also a recurring theme in the Tanzania case study of the World Bank distortions project (Morrissey and Leyaro 2009), as is the case in many other studies, and indeed appears as an acute problem for Tanzania. This systemic issue deserves a special mention here. In the concluding section of that case study, the authors summarize the problem as follows.

For the cash crops, the case study found it difficult to distinguish the effect of policy distortions from inefficiencies in marketing and market structures.[5] Thus, it is quite possible that the negative estimates reflected market inefficiencies in addition to (and most likely even more than) policy distortions. It was also noted that products with high negative NRAs appear to be those where there is limited competition and inefficient marketing or processing (cotton, tea and tobacco) whereas the NRAs are much less negative for products in sub-sectors where competition has been introduced and efficiency raised (coffee, cashew nuts and sisal). Thus, more efforts are needed for improving the functioning of output and input markets.

The study concluded that despite many rounds of reforms and generally improving infrastructures and information, there was little evidence of improvements in marketing (including processing and transport) efficiency for most products. In view of this, while measures to improve yields and production efficiency are important, the analysis suggested that measures to improve competitiveness and efficiency in processing and marketing (including transport and distribution) are equally important. Intra-regional trade facilitation and other measures associated with regional integration are also equally important.

Minot (2010) reviews a number of recent studies that quantify the transmission of price signals of staples across the border and domestic markets in Tanzania. In one of them, it was found that during 1992-2002 the average difference in the price of rice and maize between two markets was consistently much higher than transport and marketing costs, indicating marketing inefficiencies.

One somewhat divisive issue is the incidence of a subsidy or taxation. For tobacco and pyrethrum for example, the World Bank case study notes that although the results suggest a subsidy for consumers, there are few actual consumers in Tanzania and so this should be interpreted as implying a potential subsidy for processors/traders (at least in the sense that producer prices are lower than they should be). A similar interpretation could apply to cotton. As various stakeholders have been

[5] One reason for the difficulty in measuring distortions and transfers of subsidies/taxation across the chain was the multiple levels of the agricultural markets (typically 3-4 levels) through which the products passed, namely the farm, local town, central market and world market.

increasingly participating in the discussions on policies, it is important that there are sound analyses to present to them to show the incidence of the tax or subsidy, i.e. who benefits and who loses and by how much.

This issue has been recognized well in both the NSGRP and agricultural policy (the ASDP). In response, a number of policy and regulatory reforms are proposed in order to reduce the cost of doing business across value chains, and thus entice private sector investment. These are outlined *inter alia* in sub-component 2.3 of the ASDP - *Marketing and Private Sector Development*, with programmes for reducing marketing costs and risks for small and medium producers, traders, processors and other service suppliers, with an overall objective of linking farmers to markets through value chains.

3. Conclusions

The purpose of this paper is to discuss key agricultural trade policy issues facing Tanzania as a contribution to the process of articulating appropriate agricultural trade policies. The next chapter reviews in some detail key national policy frameworks for trade and agriculture. Agriculture is accorded top importance by the main framework, the NSGRP, also signalling a departure from the past in stressing on commercialization, competitiveness and the role for the private sector. The food sector has been given its due importance, and the recent global food crisis has reinforced this prioritization. Tanzania's trade policy was also found to be balanced in terms of the provision of instruments to support both the food and export sub-sectors. In terms of the challenges, there are both short-term policy issues to resolve and the longer-term development of the sector. The former include, for example, the size and role of the SGR, handling the sensitive maize sub-sector, relatively high taxation facing export agriculture, and many factors behind the high cost of marketing products and inputs.

Without repeating what have been said in Section 2 on these issues, two additional points are made below.

First, the government needs to lead the process of establishing and promoting value chains for selected food and cash crops. This is important for two reasons. The more important reason is that this is the right way to move forward in view of the vision and strategies for agricultural development as articulated in the NSGRP and agricultural development plan. This is also the right way to entice the private sector to participate in the commercialization of agricultural sector. The second reason is for fine-tuning policies through research and analysis. Many of the problems behind the often said high marketing and transaction costs in domestic and export trade can be identified through a research framework based on value chains. As a value chain involves several actors along the chain with at times conflicting interests (e.g.

between farmers and processors on export taxation of raw produce), it provides the framework for identifying, and quantifying, the impact of an intervention on these economic agents. This in turn provides the basis for formulating a coherent policy. The government could also encourage development partners and research institutions to get involved in this process of articulating policies that are evidence-based, sound and thus not easily reversed.

Second, there is a need for doing more on stakeholder consultations in articulating these interventions. These meetings are essential for formulating sound policies that are not easily reversed. During the background work that contributed to this paper, several stakeholder consultations were held in order to better understand that process as well as to try some policy ideas articulated as part of this work. What comes out very clearly is that for these consultations to be effective, much more needs to be done than just holding the meetings. At the minimum, participants should have the benefit of having a brief that explains the consequences of alternative policy options being discussed. In its absence, stakeholders may attend the consultation, but will contribute little. This is especially important for discussing trade policies which tend to be divisive and most societies seem to have different views on these issues.

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Tanzania - Mainstreaming trade policy

Ramesh Sharma

1. Introduction

As with other papers on trade mainstreaming in this volume, the term mainstreaming is understood as a process of ensuring that trade policies are supportive of the core national development goals such as growth and poverty reduction, and are consistent with all major national policy frameworks.

In order to analyse trade mainstreaming defined in this way, a two-step approach is followed. First, in Section 2, a reading is done of selected key national policy frameworks, starting with the PRSP, with a view to examining where and how trade and agricultural policy issues are mentioned and articulated. This is a substantive section because of the number of policy frameworks reviewed. This is followed in Section 3 by an analysis of the policy frameworks from the standpoint of mainstreaming. Specifically, 5-6 policy issues of a more divisive nature are selected and are analysed to determine whether and how the various policy frameworks have addressed them. This should reveal consistency/synergy, or contradictions, across the frameworks. This and some additional commentary in that section are meant to provide tips on how trade mainstreaming could be improved.

The background work contributing to this paper was undertaken, as part of the FAO trade policy articulation project, by a team of analysts in Tanzania through the Economic Research Bureau at the University of Dar es Salam (Osoro *et al*. 2010). The team held numerous brainstorming sessions and stakeholder consultations for soliciting fresh views on the issues.

Note that trade has become a very broad agenda in scope, as seen in the many areas that the WTO Uruguay Round Agreement covers. Even within agriculture, the scope is broad, from traditional tariffs and quotas to food aid and standards. Some of these topics are of a relatively divisive nature, e.g. tariffs and subsidies while others are not so, e.g. infrastructures or SPS measures. In reviewing national policy frameworks, the focus of this paper is on trade and pricing policy issues, the relatively divisive ones, rather than the less divisive development measures.

2. Trade-related issues addressed in key policy frameworks

With a view to examining where and how trade and related policy issues in the context of agriculture and food security are mentioned and articulated, the following seven policy documents are reviewed, five of them national and the other two regional. The first five are: 1) the PRSP; 2) National Trade Policy 2003; 3) Diagnostics Trade Integration Study 2005; 4) Agricultural Strategy and Programme (ASDS and ASDP); and 5) *Kilimo Kwanza* ("Agriculture First"). The two regional policy papers are: 1) EAC Trade Policy; and 2) EAC Regional Food Security Strategy.

2.1 The PRSP

Tanzania's current PRSP is titled *The National Strategy for Growth and Reduction of Poverty* (NSGRP) or MKUKUTA in Kiswahili. It was launched in 2005 and follows up on the earlier PRSP (2000/01–02/03). It refers to Tanzania's Vision 2025, the main long-term development framework. The NSGRP growth targets are set high: 6-8 percent per annum for real GDP and 10 percent per annum for agriculture. These are to be attained through agricultural transformation (significant rise in productivity, modernization and commercialization), accelerated private-sector led growth, a competitive economy, efficient governance, and so on.

The NSGRP adopts an "outcome-based" approach where desired outcomes are specified first and followed by strategies, interventions, actors, etc. There are three clusters of broad outcomes:

1. Growth and reduction of income poverty.
2. Improved quality of life and social well-being.
3. Good governance and accountability.

For each *cluster*, a number of *goals* are specified (e.g. cluster 1 has six goals) which are defined with an associated set of specific *operational targets*. For each target, specific interventions/activities are identified, along with responsible units (e.g. ministries). An annex presents the details in a matrix form, covering the broad outcomes, goals, operational targets, priority cluster strategies, as well as intervention package, areas of collaboration and key actors.

Trade and agricultural issues are discussed under Cluster 1 only. A total of 10 factors are identified as *sources of growth*, of which three are trade-related: i) domestic trade; ii) trade development; and iii) trade-related assistance. Liberalization of domestic trade is stressed under point (i), importance of the link between external trade and domestic productive capacity and competitiveness under (ii), and mobilization of external and domestic private sector resources for production, processing and trade under (iii). The NSGRP fully acknowledges implementing National Trade Policy (GoT 2003, NTP03 in short).

Trade-related topics are covered in the text and annex matrix within four of the following six goals under Cluster 1[1]: 1) ensuring sound economic management; 2) promoting sustainable and broad-based growth; 3) improving food availability and accessibility; 4) reducing income poverty of both men and women in rural areas; 5) reducing income poverty of both men and women in urban areas; and 6) provision of reliable and affordable energy to consumers.

Under goal (1), trade is mentioned in 3-4 places but not as an issue or position but on its general role in "ensuring sound economic management", e.g. trade should lead to improving trade balance. There are hardly any policy issues here, and the write-up is also poor in some places making it difficult to clearly understand what is being said. Additional trade topics are covered under Goal 2 of the same cluster. Table 1 shows some relevant strategies and actions.

Agriculture and food security issues in the NSGRP are addressed in Chapter 4 and in action matrix in the annex. The broad objectives set are two-fold: i) to promote the production of food crops to improve food availability and accessibility; and ii) to facilitate investments to modernize small, medium and large-scale agriculture. Other relevant statements include strengthening links between agriculture and industry and encouraging agro-processing.

The operational target 4 in the annex (within goal 2 of Cluster 1) is to double agricultural growth rates and has eight cluster strategies. All the strategies are about development measures such as irrigation, productivity and technology, training and extension, and services delivery. Similar strategies are provisioned for livestock development, under operational target 5. All in all, there are very few policy issues of a divisive nature.

Food security is given prominence under goal 3 (Cluster 1): *Improved food availability and accessibility at household level in urban and rural areas*. The two operational targets are increased food crops production from 9 million tonnes in 2003/04 to 12 million tonnes in 2010, and maintained Strategic Grain Reserve (SGR) of at least four

[1] The *broad outcome* of Cluster 1 is "Broad based and equitable growth is achieved and sustained."

TABLE 1:
Selected trade policy/issues mentioned under Goal 2, Cluster I of NSGRP

Cluster strategies	Intervention package
2.1.1 Develop detailed growth strategy that focuses on specific products/services where Tanzania has and can create competitive advantages.	Dialogue on specific projucts e.g. leather, food processing, textile, nomey, etc; studies on production processes, quality standards and markets
2.1.2 Address linkages and synergies at sub–sectoral level across sectors to add value to the specific identified products.	as above
2.1.3 Identify and promote investment in productive and service sectors.	Policy review & investment stimulation
2.1.5 Maintain predictable business environment through BEST programme. Expedite implementation of BEST action plan.	Policy review and raise awareness; Legal and institutional reforms; and Labour and employment reforms.
2.2.1 Strengthen SMEs Credit guarantee facilities; SMEs development policy and plan, Export Credit Guarantee Fund for Cooperatives and other organizations handling farmers' produce, Cooperative Development Policy 2003, microfinance, promote/ establish incubator systems to help sustainable management of SMEs.	SMEs development and management; Micro credit; SMEs policy and plan; Business regulations

Source: NSGRP, Annex.

months of national food requirement. As for interventions for the first target, besides those listed above (irrigation, research etc), the notable ones are improving access to inputs by subsistence farmers through targeted subsidized inputs to selected food crops and expanding accessibility to micro finance. Interventions for the second target (the SGR) include research on areas like food storage technologies and agro-processing, monitoring of food situation and improved management of food reserves.

Some trade/pricing-related interventions are also proposed under the next sub-section of the NSGRP called *reducing income poverty of both men and women in rural areas*. With a target of reducing the proportion of the rural population below the basic needs poverty line from 38.6 percent in 2000/01 to 24 percent by 2010, and food poverty line from 27 percent in 2000/01 to 14 percent by 2010, the interventions include diversification of sources of income, strengthening of Export Credit Guarantee Fund for cooperatives and farmers' organizations, supporting production of high return crops, and promoting value-addition schemes and agro-processing.

2.2 National trade policy 2003

Tanzania's TNTP03, sub-titled *Trade Policy for a Competitive Economy and Export-led Growth*, is a 82 page document with five chapters: background and rationale;

economic overview; vision, mission and objectives; constraints and challenges; policy instruments; and implementation framework and action plan.

Introducing TNTP03's vision, mission and objectives, it is said that in order to address the problem of poverty, it is necessary to attain and sustain a minimum GDP growth rate of 7 percent which in turn requires a minimum rate of 14 percent for trade growth. The trade policy vision is expressed as follows: *"… to transform the economy from a supply constrained one into a competitive export-led entity responsive to enhanced domestic integration and wider participation in the global economy through national trade liberalization".* The mission is: *"…to stimulate the development and growth of trade through enhancing competitiveness aiming at rapid socio-economic development."* The third element, objectives, is stated in terms of five specific objectives emanating from the vision and mission. Very briefly, these are to: i) develop trade as a means for triggering higher performance and competitiveness in the domestic market; ii) transform economy towards an integrated, diversified and competitive economy for effective participation in global trading system; iii) stimulate value-adding activities on primary exports; iv) stimulate investment flow into export-oriented areas; and v) attain and maintain long-term current account balance through effective participation in export trade and efficiency on imports.

As a commentary, these objectives are well stated, although it might be added that these are fairly common goals found in national trade policies of other developing countries also. Indeed, an expression of the objectives that are much clear can be found in Chapter 5 - *Trade Policy Instruments and Priority Sectors* – where policy instruments are detailed. It is worth going through these as they indicate specific positions on many potentially divisive issues.

A total of 23 specific instruments are presented under five categories. Policy positions are expressed fairly clearly without mincing words – which is a big plus for the private sector. For each instrument, a paragraph or so presents the issue followed by a paragraph or so of policy position. It is said at the outset that the application of these instruments will be guided by the following four goals: need to stimulate domestic production, promote exports, safeguard domestic industry against dumping practices, and protect consumers. The five broad categories are as follows:

1. Tariff-based instruments (e.g. tariffs, taxation).
2. Non-Tariff Measures (e.g. quotas; licensing and role of parastatals or STEs etc).
3. Trade Defence Mechanisms (various safeguards).
4. Trade Development Policy Instruments (e.g. investment code, EPZ etc).
5. International Trade Policy Instruments (e.g. trade agreements).

For space reason, the presentation below on instruments is succinct and selective, covering only those that are of a relatively divisive nature.

1. Tariffs and taxes

a) Tariffs

- Tariffs will continue to be the major instrument for trade policy implementation.
- Main role - instrument of protection and revenue.
- But with transparent application and predictability and further liberalization and rationalization of tariff structure.
- Goal is to increase competitiveness and raise consumer welfare.
- Will build analytical capacity for tariff policy analysis including economic impact assessment based on effective rates of protection (ERP).

b) Domestic taxation

- Tax regime is complicated, multiple, overall higher rates, high administration costs.
- To ensure that tax regime is supportive of increased exports.
- Rationalization, reduction, consolidation, transparency etc.
- Overall objective is also to facilitate the use of tariffs as a trade policy instrument, including an instrument to protect domestic industry within WTO rules.[2]

c) Duty Draw-Back (DDB) Scheme

- Currently, suffers from the usual problems (verification and timely duty refunds).
- Lower tariffs better for stimulating exports than DDB scheme.
- So significance of DDB scheme to decline as import tariffs are lowered.
- In the mean time, DDB scheme to be made more efficient.

d) Export Taxes

- Government recognizes the role of export taxes to discourage export of unprocessed products and so is useful for value added exports.
- Will also allow, on selective basis, levying export taxes for raising funds for R&D, training, services etc.

2. Non Tariff Barriers (NTBs)

Statements are made for a total of eight NTBs - import licensing and registration; customs valuation; local content requirements (WTO TRIMS Agreement); standards; STEs; government procurement procedures; and administrative procedures. It is said

[2] Making this statement under "taxation" rather than under "tariffs" looks odd. This point merely repeats bullet #2 under tariff earlier.

that the ultimate objective is to phase out NTBs through tariffication, and that much progress has been made. What follows summarizes positions for three selected NTBs where positions have been particularly divisive.

a) TRIMs (Local Content Requirement)

- Local content rules will be used... so as to facilitate use of this instrument to enable local industry to gain the necessary edge in developing its competitiveness.
- In future TRIMs negotiations, the GoT will take a position whereby LDCs are exempted, for their development, from some of the TRIMs rules.

b) State Trading Enterprises (STEs)

- STEs continue to play an important role in managing trade, notably food products
- Past and current policy has been reduced role for STEs.
- But a STE plays an important role in managing trade of selective products is recognized, notably food and food products, and in times of crises.
- Where such a need arises, STEs may be given exclusive right to provide requisite services for a specified duration.

3. Trade defence instruments

Government will put in place legislation and capability to use these instruments (namely, safeguard, subsidies and countervailing duties, anti-dumping and rules of origin), with an overall aim of ensuring fair competition by availing infant industries time to grow and become competitive without inhibiting trade.[3]

4. Trade development instruments

Four instruments are discussed under this heading: EPZs, Investment Code and Rules, export development/promotion and export facilitation. The aim of these instruments is to address supply side constraints and thus stimulate exports by focusing on all levels of production and trade.

- EPZ will be promoted, rationalized and expanded.
- Will take measures to enhance the inflow of FDI, including FDI in such critical sectors as agriculture and industry.

[3] A policy statement under the section *Subsidies and Countervailing Duties* speaks of export subsidy by Tanzania itself, something that should have been made in a section on export policy and not here. It is said that the government recognizes the role of subsidies in the stimulation of exports within allowable WTO limits, and so the government will take measures to utilize subsidies as an instrument for export trade stimulation.

- For export facilitation, besides simplifying trade procedures and reducing high costs, government will re-introduce export credit guarantee schemes.

5. International policy instruments

In recognition of the benefits from regional and global trade agreements, the government will:

- Implement measures emphasising more effective participation in bilateral, regional and multilateral trade schemes.
- Work towards strengthening trade negotiating capacity of various institutions.

Some commentaries on these policy instruments relevant for this paper are made in the next section.

2.3 Diagnostics Trade Integration Study (DTIS)

The 2005 Tanzania DTIS comes in two volumes – volume 1 (180 pages) as the main report and volume 2 (153 pages) presenting commodity and sub-sector studies. An Action Matrix of 23 pages provides details on what needs to be done, where etc. All in all, this is a comprehensive work and an important reference on Tanzania's trade policy and support measures.

As with most other DTIS, the focus is exclusively on exports. This is expressed as follows: "The DTIS is aimed towards supporting the Government of Tanzania (GOT) in the realization of its National Trade Policy, the objective of which is to develop an export orientation for the country to enhance income and reduce poverty". The study is also said to be a contribution to a well-articulated export strategy. In view of this, and in common with other DTIS, it covers both: i) economy-wide issues and constraints; and ii) sector-specific (export sectors) supply-side issues and constraints.

On economy-wide issues, the DTIS addresses the following eight topics in eight chapters in Volume 1, which are said to be the trade-related subset of the larger development agenda: macroeconomic environment and competitiveness, trade policy, market access and trade preferences, institutions for trade policy and export development, export processing zones, SPS standards, transport, and customs. Most of the recommendations made are fairly standard, with hardly any divisive issue, e.g. the need for maintaining macroeconomic stability, improving customs administration, linking markets with infrastructures, and so on. On the import side of the trade policy, the main recommendation is to reduce import tariffs over time (namely the EAC CET) to *inter alia* avoid the risk of trade diversion, rationalize tariff dispersions, rationalize the current highly dispersed and varied effective protection across products and sub-sectors, and sort out contradictions due to membership in multiple regional trade bodies.

Volume 2 provides detailed analyses for a number of export products and services. These include four agricultural exports (cashews, cotton, coffee and tea), horticulture and floriculture, spices, fish, and tourism. The four key cross-cutting constraints on the supply-side (i.e. affecting all crops) are: i) the role of crop boards; ii) excessive taxation; iii) weak agricultural support services; and iv) price volatility. The recommendations are fairly standard, e.g. eliminate market intervening role of the boards, eliminate excessive tax burdens (export and domestic taxes), privatize services delivery, and use market-based systems for managing risks.

Some analyses in the DTIS also provide useful insights for policy. One is an analysis of the level and dispersion of the Effective Rates of Protection (ERPs).[4] It shows that there was a large dispersion of the ERPs, from negative 16 percent to positive 216 percent. The study also notes that tariff changes to the post-CET structure were modest but ERP dispersion might have widened further. Such a large range of tariff dispersion obviously magnifies the risk of resource misallocation. Most governments do apply different nominal tariffs and provide domestic supports to different products, which result into different ERPs. There has to be a clear rationale for the effective protection provided, and the effects need to be monitored and made transparent. The study shows in a graph that the relationship between the ERPs and value addition rates is negative, implying that low value-adding sub-sectors are more protected than high value-adding ones, typically the opposite of what should have been targeted in the first place.

Thus, one important recommendation was for a rebalancing of trade incentives with a view to initiating efficiency-enhancing restructuring process in low value-added manufacturing branches to reduce the risk of policy-induced resource misallocation. Of course, if this is not done for some reason, the rationale for maintaining such a structure of protection needs to be explained (e.g. food security, environment protection etc).

2.4 Policy frameworks for agriculture

The 2001 Agricultural Sector Development Strategy (ASDS) is the main policy framework for agriculture. It is a typical strategy with a vision, analysis of constraints, strategies and policies. Its objective is to achieve a sustained agricultural growth rate of 5 percent per annum. The ASDS provides a number of strategies, claimed as signalling a break from the past. The key ones are as follows:

1. Transformation from subsistence to commercial agriculture.
2. Private-sector led with government providing enabling environment.
3. Decentralization through District Agricultural Development Plans.

[4] The reference period was around 2003-2004, just before the adoption of the EAC CET.

4. Deregulation of the delivery of support services with a delineation of public/private roles.
5. Improved functioning of output and input markets.
6. Strengthened institutional framework governing the sector.

To operationalize the ASDS, an Agricultural Sector Development Programme (ASDP) was formulated in 2006, as well as National Livestock Policy in 2006 and Agricultural Marketing Policy in 2007. The ASDP has a 15-year programme horizon and is being implemented as a seven-year plan initially (2006/7–2012/13), and provides detailed costs also.

An ASDP basket fund has been created with resources from the government and development partners. The ASDP activities are divided into national and local levels, with the national activities focussed on strategic plans of the line ministries and activities at local level based on District Agricultural Development Plans (DADPs) and implemented by the Local Government Authorities (LGAs). The local level support uses 75 percent of the total resources from the basket with 25 percent used by the national level component. The core activities are as follows (GoT 2008):

National Level Support Component: i) agricultural services; ii) national irrigation development; iii) marketing and private sector development; iv) food security; and v) coordination, monitoring and evaluation. *Local Level Support Component*: i) local agricultural investment; ii) local agricultural services; and iii) local agricultural capacity building and reform.

The ASDP document claims that it is consistent with both the NSGRP and ASDS, although at one place it notes that the NSGRP's 10 percent growth target for agriculture and 9 percent for livestock are twice the more realistic rates targeted in the ASDS.

2.5 Kilimo Kwanza (Agriculture First)

When launched in 2009, Kilimo Kwanza (KK) was presented as a blueprint for Tanzania's Green Revolution and claimed that it will add a new vigour to the ASDS implementation by bringing more players, robust involvement of private sector and national coordination of planning and resource allocation (Kilimo Kwanza 2009). This programme is important because it originated from the Tanzania National Business Council, the highest consultative organ between the private sector and government, with the President of the United Republic of Tanzania as the Chairman.

There are ten actionable pillars at the core of the declaration on the KK.5 The proposals in some of the pillars are related to trade/pricing policy issues and so of

[5] Available at: http://www.tnbctz.com/index.php/KILIMO-KWANZA/View-category.html

TABLE 2:

Proposals in Kilimo Kwanza on focus commodities and products

Activity	Task
4.1 Identify priority areas for strategic food commodities for the country's food self-sufficiency	Put in place arrangements for production of strategic commodities such as maize, cassava, rice, legumes, fish, meat and dairy products, wheat, bananas, potatoes, sorghum, millet. Introduce cassava blending in both maize and wheat milling
4.2 Identify priority areas and modalities for production of crops that can transform agriculture quickly with minimal financial and technological requirements, growing domestic/ external market demand and employment creation potential.	Put in place arrangements to finance the production of cotton, sunflower, safflower, sesame, palm oil.
4.3 Identify priority areas and modalities for production of horticultural crops	Put in place arrangements for the prod. of high labour intensive crops requiring limited investment with potential for significant foreign exchange earnings and contribution to national economic growth such as onions, mangoes, bananas, grapes, avocados, pineapples, tomatoes, vegetables and spices.
4.4 Identify priority areas and modalities for production of crops with high value-addition potential such as fibers, bio-energy etc	Put in place arrangements for increased production of sisal, sugarcane, oilseeds and sweet sorghum for energy and other value added products.

Source: From Kilimo Kwanza Pillar number 4, *Paradigm Shift to Strategic Framework of Kilimo Kwanza*.

relevance to this paper. One such pillar is number 4, *Paradigm Shift to Strategic Framework of Kilimo Kwanza*. Table 2 shows key proposals in this pillar relevant to this paper.

Furthermore, Pillar 6, *Incentives for Kilimo Kwanza*, has some proposals related to farm price stabilization and SGR. Its activity 6.3 is about price stabilization. But the way it is worded, there is a contradiction. The activity itself is called "remove market barriers to agricultural commodities" while four of the following five actions suggested (exception is 3rd) are about increasing government intervention in food markets:

1. Allocate more resources to the National Food Reserve Agency (NFRA) to regulate the prices of food crops and make the Government the buyer of last resort.
2. Expand the capacity of NFRA for larger scale procurement and storage.
3. Encourage increased private sector participation in buying and stocking of food crops.

4. Maintain stock of food supply for six months to one year to ensure conditions of market stability.
5. Regularize border trade on food items.

Activity 6.6 also prescribed establishing price stabilization mechanism for agricultural commodities. There are also some interesting trade-related proposals in Pillar 7 - *Industrialization for Kilimo Kwanza*. Activities are divided into two groups. Under "backward linkages", there are proposals for fertilizers, seeds, livestock services, fish industry, agro chemicals and machinery. Under "forward linkages", the first activity is "Expansion of Agro-Processing Industries", with the following seven actions, many of which touch on issues on trade/pricing policy:

1. Enforce measures to discourage export of raw primary products and increase tariffs on imported competing products and conduct regular reviews.
2. Institute strict measures to curb the dumping of low quality processed agro-products.
3. Conduct a "Buy Tanzanian" campaign starting with government procurement.
4. Re-posses and revive privatized agro-processing factories which have not been operational to date (cashew nuts, tanneries, textiles etc).
5. Support local agro-processors by provision of incentives and other support measures.
6. Support SIDO to promote and expand small scale agro-processing operations.
7. Establish high quality packaging industries to cater for increased packaging of agro-processed products.

2.6 EAC trade and food security policy

The coming into force of the EAC customs union in January 2010 will have some significant implications for Tanzania's trade policy options. The EAC also adopted a regional strategy for food security in February 2010 and an action plan in May 2010 for the period 2010 to 2015 (EAC 2010). Tanzania's trade policy being done in 2003 could not have filtered in these recent developments.

First, the CET will now determine Tanzania's policy space related to imports in particular. One implication is that Tanzania's 120 percent WTO bound tariffs are now essentially redundant. This does not seem to be an issue because Tanzania's applied tariffs have been fairly low in recent years, around the levels of the EAC CET rates. Moreover, there is a provision for higher tariffs for sensitive products, a total of 31 agricultural tariff lines (at HS8 level) with tariffs substantially higher than the 25 percent maximum rate in the third ECA band (on average about 55 percent *ad valorem* rate with mixed specific duty of USD 200/tonne for 11 tariff lines). One issue that seems to be recurring is that these sensitive tariff rates have not settled as members have found constant difficulties to live with these on account of their differing trade status and sensitivity.[6] As with all customs unions, EAC trade policy also has safeguards against import surges and depressed import prices, but these are not well developed and there is a conspicuous absence of discussions on this matter.

By freeing intra-EAC trade, the customs union will also raise some new challenges and offer opportunities for intra-EAC trade. On the challenge side, Tanzania will have difficulties implementing its own food price stabilization and supplies policies through the SGR or other means without taking into consideration the free intra-EAC trade. It will be very difficult for the SGR to influence domestic prices, a wish or policy position advocated in some policy national frameworks. Additional complications, including reduced policy space, will come from Tanzania's membership in another regional body, the SADC. Issues arising out of these and other multiple membership in regional bodies are yet to be understood well, and are conspicuously absent in national policy frameworks.

Second, some comments on the EAC regional food security strategy and action plan are useful here. The former provides strategy/policy and the latter is a 49 page document with 29 pages devoted to detailed action plans. A total of 17 areas of interventions are proposed for three broad priority areas: i) enhancing free movement of food in the region; ii) increasing production by enhancing productivity; and iii) improving and accelerating the implementation of policies, strategies and programmes. Five interventions are of particular relevance for the theme of this paper:

- EAC Common Market Protocol to give priority to trade in food products.
- NTBs that hinder transfer of food from surplus to deficit areas in the region to be eliminated.
- No export bans on food products intended for consumption within the EAC region.
- Emergency food aid to aim at long term development of food supply systems through regional procurement and accompanied by investment measures.
- EAC to enact Regional Framework for providing a legal basis for ensuring coordinated regional approach to issues on Food Security and Climate Change.

Two outputs in the action plan are notable. One calls for taking full measures to facilitate trade with a target of raising intra-EAC trade in food to 30 percent by 2015 from less than 10 percent currently. The second action calls for instituting food and financial reserves, with the target for each member of maintaining by 2015 food and feed reserves for at least six months' needs (from current level of at least three months), and establishing by each member a contingency fund for six months' food reserves by 2015. These targets are different from those in national policy frameworks (discussed below).

[6] These issues are discussed in the previous chapter on trade policy.

3. How mainstreamed are trade policies?

This section presents a commentary on 5-6 prominent policy issues with a view to analyse the extent to which the issues are addressed consistently across national policy frameworks. As said at the outset, one defining character of the mainstreamed policies is consistency across all frameworks. Several of these issues were also raised in the previous chapter and also came up in the previous section.

On the targeting of selected products as "strategic" for special attention

As is the case for many developing countries, Tanzania's policy frameworks also speak of strategies to promote special or strategic products.[7] The NSGRP indicated this strategy but not as explicitly. Under Goal 2 in Cluster 1, the strategy is to "develop a detailed growth strategy that focuses on specific products/services where Tanzania has and can create competitive advantages". Further down in Goal 3 of this cluster, there is a call for providing inputs and subsidies to "selected food crops". Goal 4 speaks of "crops with high returns". Thus, while pointing to that direction, the NSGRP is not specific enough on products. Concepts like products with competitive advantages and crops with high returns have little meaning in concrete terms. This strategy is neither evident nor elaborated in the ASDS and ASDP. As for trade policy, there is no mention of special tariff or other treatments to such "special" products, although it is said that tariff has a role to play as an instrument of protection. The DTIS by design has nothing to say about food crops, and in any case the overall implicit policy framework is not to favour one or the other export crops.

The Kilimo Kwanza, on the other hand, supports prioritization, calling in Pillar 4 for identifying priority areas and modalities for production for four categories of products. But the problem is that it lists almost all crops and products for priority attention – a total of 31 products (and many more if meat and dairy products are disaggregated). Thus while the approach is consistent with NSGRP, prioritizing so many products is hardly useful in practice.

In the case of the EAC trade policy, the decision to list 31 sensitive agricultural tariff lines could be said to be consistent with the approach of the NSGRP. Most of these products are basic foods, similar to the list of strategic products identified by the 2006 Abuja Food Security Summit, and so at least there is some support here to the NSGRP approach and the Abuja Summit resolution.

[7] There are many examples of such an approach in other fora also, e.g. negotiations for designating selected products as special or sensitive in the Doha Round, the targeting of about a dozen food products for increased intra-African trade by the 2006 Abuja Summit on Food Security.

In conclusion, while the NSGRP itself did not articulate the strategy clearly, the ASDP (that was formulated after the NSGRP) could have elaborated the idea further as well as action plans. This is especially important because it is ultimately the agricultural programmes that have to implement the NSGRP strategy for agriculture.

On protection/safeguard for import-competing products/sub-sectors

The NSGRP does not say anything explicitly on this. It speaks of competitiveness in many places, and this could be interpreted as a position that supports fair import competition, without, or with some, protection. But then it refers to the TNTP03 for most trade policies. The primary focus of the TNTP03, with its sub-title *trade policy for a competitive economy and export-led growth*, is obviously on exports,[8] but there are some views on importables also. Thus, the fifth critical issue addressed is safeguarding, for the interim, of domestic industry and economic activity threatened by liberalization, including identification of sectors to be protected, the rationale and costs of protection, and the maximum duration for protection. It is also said that tariffs will continue to be the major instrument for trade policy with the main role being protection and revenue. There is also the intention to use trade defence instruments to "ensure fair competition by availing infant industries time to grow and become competitive without inhibiting trade".

The DTIS is all about exports and so this issue is not even addressed. Likewise, both the ASDS and ASDP are quiet on this issue. On the other hand, the Kilimo Kwanza calls in Pillar 7 for instituting strict measures to curb dumping, as well as for supporting local agro-processors by provision of incentives and other support measures. For tariff protection, the maximum rates for Tanzania will be those set by the EAC CET, namely 25 percent in the top band, which is considered to be on the lower side by some and just right or high by others. But for 31 sensitive agricultural tariff lines, the CET is high enough for providing protection. Likewise, there will EAC-wide safeguard for surges and depressed import prices. Eventually, as a member of a customs union, it will be the EAC CETs and safeguards that will be the effective instrument. So even if the NSGRP is quiet on this (presumably because it was written earlier), these instruments are available.

The size of the SGR and its role

SGR may be a small matter in the overall trade and agriculture complex but it has been a divisive issue in policy discourses. The issues are its size and role. Do national policy frameworks provide a coherent view on these?

[8] Thus the first of the six critical issues addressed by the NTP03 is expressed thus: "Consolidating consensus on trade measures that will entrench the continuing policy shift from a protected and controlled economy towards a competitive market economy".

The NSGRP is quiet on the role but calls for maintaining stocks for at least *four* months of national food requirement (presumably maize). The trade policy does not explicitly mention SGR but it approves a role for STE in managing food trade, including exclusive right. The ASDS and ASDP are quiet on the SGR. Given the emphasis placed on private sector role in markets, a price stabilizing role for the SGR would most likely not be supported. The Kilimo Kwanza presents a highly interventionist position: maintain food stocks for six months to one year; ensure conditions of market stability; regulate the prices of food crops; and make the government the buyer of last resort. Lastly, the EAC food security strategy calls for six months' of reserves to be kept by each member, the same as the Kilimo Kwanza but higher than in the NSGRP.

Thus, on the size and role of the SGR, there is obviously no clear view in the policy frameworks. Most analysts on this subject appear to support a SGR that is small, e.g. no more than three months of stocks, and solely for emergency needs. In their view, SGR operations to manipulate prices are neither feasible nor desirable, and the way forward is to encourage private sector operations and rely more on trade for price stabilization.

Export taxation and export incentives

The NSGRP says nothing on export taxation but in strategy 2.2.1 it mentions Export Credit Guarantee Fund for Cooperatives and other organizations handling farmers' produce. The TNTP03 recognizes the role of export taxes, specifically for encouraging local value addition by discouraging the export of unprocessed products, as well as for levying export tax on selective basis for raising funds for R&D, training, services etc. Also, a duty draw back scheme is supported until import tariffs fall to low levels. It is also said that export credit guarantee schemes will be reintroduced, in addition to export promotion zones. The DTIS is essentially against export taxes, whether for value addition, revenue or fund for R&D, as well as against export subsidies of any sort. Both the ASDS and ASDP do not say anything about these instruments. The Kilimo Kwanza does not specifically mention instruments like export taxes or subsidies, but, as with the TNTP03, calls for measures that discourage the export of raw primary products. Finally, these issues are not covered in the EAC policy frameworks. Thus, overall, looking backward through these statements, what is conspicuous is the absence of some useful guideline on these matters in the NSGRP although it says that export-led growth is a key strategy.

Domestic subsidies and incentives

With the WTO Agreement on Agriculture (AoA), this has also become a trade issue. For Tanzania, the total amount of subsidy is unlikely to come anywhere closer to the AoA limit, and so this is mainly an economic issue. Very briefly, subsidy measures are mentioned in the NSGRP in food security-related strategies in Cluster 1.

While setting the goal of increasing food production from 9 to 12 million tonnes, one strategy is to provide subsidy to selected food crops, especially targeted to small farmers. Also mentioned are incentives for attracting private investment in agriculture. Incentives also feature in the objectives of the TNTP03, notably in objective 4 calling for stimulating investment flows into export-oriented areas of comparative advantage.

The DTIS does not say anything explicitly on domestic subsidy, but most likely would not support such measures. In the ASDS and ASDP, although there are no clear policy statements on subsidies, several programmes advocate the use of incentives (essentially, subsidies of some form) to provide inputs, services and for private sector involvement in the agricultural sector. Tanzania currently grants substantive subsidies on fertilizers. Almost all policy frameworks stress on sharply expanding the flow of credit to agriculture, with some subsidy and incentives for banks. Finally, the Kilimo Kwanza is also supportive (in Pillar 7) of providing subsidy and incentives to domestic production, including through trade protection. For example, it calls for supporting local agro-processors by provision of incentives and other support measures, although the specifics - what incentives, to whom, based on what criteria and how much – are not specified, and thus what is said does not provide useful guidance.

Towards a better mainstreamed PRSP

As a final remark, the question asked is how a PRSP can be improved from the standpoint of mainstreaming trade and agricultural policy issues. The above commentary was meant to illustrate an approach towards this process – by ensuring that a PRSP provides messages or guidelines that are consistently followed through in subsidiary policy documents.

How should a trade-mainstreamed PRSP look like? A number of evaluation studies provide some clues through an analysis of a sample of national PRSPs (Hewitt and Gillson 2003, and Ladd 2003). The following were key points made in these earlier works: trade policy issues are sparsely covered in the PRSPs; more so for agricultural trade, despite the sector's importance for poverty and growth; alternative policy options and views are rarely explored; "trade" is mostly equated with "export", i.e. issues on importables are largely missing; little consideration is given to links between trade and poverty in advocating policies; and the weak process of stakeholder consultations, which is a reason for lack of alternative views on trade policy.

A recent ODI study (Driscoll *et al* 2007) revisits these questions for a sample of newer, second generation PRSPs (six reviewed including Tanzania). They ask 16 questions on trade content. Overall, Tanzania PRSP ranks much lower than others. For 9 of the 16 questions, the answer was a straight "no", i.e. Tanzania did not have those queried trade-related features. Examples are: no stand-alone chapter/section on trade; no trade policy issues differentiated by sub-sectors and by vulnerable household groups; no analysis or consideration of trade-poverty linkage; no WTO issues; and also "no" to the issue of membership in multiple regional bodies. For the other six where the answer was "yes", it was mostly a weak yes, i.e. yes there was some mention, but not with sufficient analysis and elaboration.

What can be done? To be fair to the PRSPs, it is not practical to address all trade issues in a PRSP. But then it is also not enough that a PRSP does a poor job on trade and "delegates" the trade part to national trade policy. The TNTP03 being a trade policy obviously provides the details needed. So what is desirable is that a PRSP has to have adequate strategies and offers clear guidance to subsidiary policies so that the messages come out clearly and consistently with other frameworks. Ideally, a PRSP should be seen like a constitution and subsidiary policy frameworks the laws.

In closing, there is much scope to improve the next version of the NSGRP. This would require: i) taking notes of the common criticisms of the PRSPs in the wider literature; ii) ensuring that what is said in the PRSP is consistently followed by other policy documents, especially agriculture and industry policies; iii) taking account of new policy frameworks on RTAs and customs unions; and iv) giving adequate consideration to importables, especially foods and food security. Finally, more efforts are needed on stakeholder consultations by making these meetings effective by offering evidence-based analyses of the consequences of competing policy options, so that stakeholders participate effectively and offer fresh insights.

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Tanzania - Articulating trade-related support measures for agriculture

Ramesh Sharma

1. Introduction

This paper complements the previous two chapters on Tanzania by focussing on the issue of articulating trade-related support measures (TRSMs) that are essential for trade development. This paper needs to be read together with the previous two because it is important that TRSMs are fully consistent, or mainstreamed, with strategies and goals as articulated in national development strategy and plans (e.g. the PRSP) and subsidiary policy frameworks (e.g. policies on agriculture, industry). This is the only way to articulate and prioritize trade support measures. The background work on this subject is Hatibu *et al*. (2010).

Section 2 of this chapter provides an overview of the past and ongoing TRSMs in Tanzania. This is done with two sources of information. One is some recent studies on Aid for Trade (AfT) flows to Tanzania as tabulated in the OECD/CRS database, also supplemented by data compiled in Tanzania in one case. Also presented is an interesting exercise by a researcher to tabulate support measures along the line of the actions recommended in the Tanzania DTIS action matrix. The second source of information reviewed is agriculture sector specific, based on Tanzania's agricultural sector development programme. Together, these provide a picture of the current situation.

Given the importance of mainstreaming TRSMs within policy frameworks, Section 3 summarizes key features of national development strategies and subsidiary policies, drawing from insights from the previous two chapters. Based on these two analyses, Section 4 discusses some ideas and proposals towards articulating TRSMs for agriculture in a manner that is consistent with trade and development policy.

As explained in the synthesis paper (Chapter 4), this case study uses the term TRSM instead of Aid for Trade (AfT) for two reasons. One is that AfT is limited to external funding while TRSM does not make that distinction and covers all support measures irrespective of the source of funding. The other reason is that TRSMs as used here are meant to cover all products and sub-sectors, including importables, whereas AfT is often seen as support to exports, although this is not very clear from the WTO Task Force report on AfT. Aside from these, there are no differences between the two terms. The six categories of the scope of the AfT are comprehensive in covering both trade-specific measures and productive sectors like agriculture and industry.

2. Trade-related support measures

This section seeks, first, to provide a picture of AfT based on the OECD/CRS data as tabulated in some studies (and called AfT although the data come from before 2005 when the term originated), and second, it focuses on the case of agriculture.[1]

2.1 External support for trade

Overall picture on Aid for Trade

Table 1 copies a table prepared by Turner (2008) in a recent ODI study attempting to quantify AfT support to Tanzania along the categories recommended by the WTO Task Force on AfT. Turner also discusses a number of difficulties in accurately portraying the picture on AfT, which need to be noted.

In discussing these numbers, Turner notes that the OECD/CRS data include only aid that can be allocated by sub-sector, and so could be misleading where sizable aid is non-sector allocable. In Tanzania, nearly half of all ODA is non-sector allocable (46 percent on average during 2000-06) of which a large proportion is provided through general budget support (GBS). ODA provided as GBS are unearmarked contributions (i.e. not pre-allocated by donors to any particular sector) to the government budget. Where this money is spent will be known only after some years. Thus, the OECD/CRS's exclusion of budget support from AfT data might significantly under-estimate AfT flow. Turner also remarks that comparing AfT flow over time is problematic where donors decide to switch the channel of the ODA (i.e.

[1] Note that a comprehensive notification to the WTO agricultural domestic support measures would have been useful for this work, but Tanzania has not submitted such a notification to the WTO.

TABLE 1:
Tanzania - Aid for trade commitments (bilateral and multilateral) by category, 2000-06 (in 2005 constant price, million USD)

	2002	2003	2004	2005	2006	2002-06 average
Trade policy and regulations						
Trade policy and admin. management	0.0	0.6	0.4	6.2	2.1	1.9
Trade facilitation				2.6	0.2	1.4
Regional trade agreements			0.1	0.1	0.1	0.1
Trade education/training	0.0		0.3	0.5		0.3
Sub-total	0.1	0.6	0.7	9.4	2.4	2.6
Economic infrastructure						
Transport and storage	12.8	13.6	247.9	195.2	51.0	104.1
Communications	2.2	5.5	0.9	2.2	2.2	2.6
Energy supply and generation	16.5	25.7	59.2	7.1	15.6	24.8
Sub-total	31.5	44.8	308.0	204.5	68.8	131.5
Building productive capacity (including trade devt.)						
Business support services & insts.	8.8	38.8	14.8	4.1	0.3	13.3
Banking and financial services	2.4	2.0	0.3	20.5	12.8	7.6
Agriculture	98.0	99.5	26.8	94.9	104.0	84.6
Forestry	47.2	10.5	0.5	0.2	13.4	14.4
Fishing	0.1	6.3	0.2	51.2	0.2	11.6
Industry	1.5	7.2	7.4	98.8	5.8	24.1
Mineral resources and mining	13.2	0.0	2.0	0.2	0.1	3.1
Tourism	0.5	0.2	0.3	3.1	0.0	0.8
Sub-total	171.7	164.3	52.4	272.9	136.4	159.5
Aid for Trade proxies total	203.3	209.7	361.1	486.8	207.7	293.7
Aid for Trade proxies (% or total ODA)	12.4	11.9	17.4	26.7	8.1	15.3

Source: Table 2, page 16 of Turner (2008), itself based on the OECD/CRS database

between GBS and sector allocable project aid). Thus, for example, where a donor decides to withdraw from GBS and channel through project support, the AfT flow from the OECD/CRS data would record a sharp increase although in reality this is a diversion of funds.

A more general problem (applying to all countries) is quantifying AfT in the two broader areas – productive capacity and infrastructures. Although the WTO Task Force defined these as AfT, the “trade” content in these activities could be small in many cases. In the case of infrastructures, a OECD-WTO report has remarked that “it is almost impossible at the global level to provide a sound criterion that differentiates between trade-related infrastructure and general economic infrastructure." In response, a "trade development marker" has been introduced in the OECD/CRS reporting directives to record trade development under the larger category "building productive capacity". A score of 0, 1 or 2 is assigned to each activity depending on whether the activity has a trade development objective. Given the subjective nature of this classification, estimates will continue to be inaccurate. Handling these two categories for the purpose of accurately monitoring AfT flows remains a serious challenge.

The OECD/CRS database show the following (Table 1). First, during 2002-06, AfT flows have varied quite considerably, e.g. in trade policy from USD 0.1 million in 2002 to USD 9.4 million in 2005. This is even more so with economic infrastructures. Second, aid flow under trade policy and regulations is only a fraction of those under the other two categories.

In another study, Andrew Temu of the Sokoine University of Agriculture has also compiled AfT data from the OECD/CRS source but with a focus on agriculture and agribusiness, and so is of greater relevance to this paper (Temu 2007). He compiled a total of 82 donor supported projects covering agriculture, agribusiness or private sector development linked to agricultural trade from the OECD/CRS database, supplementing this with information from interviews with donors based in Tanzania. It covered the 1990-2005 period. Temu summarizes several features of these projects in two annexes.

Table 2 below copies a table in Temu that provides a summary. He notes that for the 82 projects, the budgets ranged from below USD 100 000 (typically, capacity building activities like training) to as high as USD 170 million (for transport and other infrastructure projects). Project life spanned from less than one year to over 10 years. Interventions ranged from small initiatives covering some villages to the whole country.

One insightful remark made by him is that there has been a concentration of support on primary crop production, including irrigation (1/3rd of the projects and 27 percent of the total outlay). Objectives of such programmes are to increase crop productivity, improve propagation and husbandry practices, deliver public services in support of primary production, and address farm disease control, water management and some irrigation innovations. These programmes are predominantly focussed on smallholder traditional systems justified on poverty alleviation and household food security. He also notes that this category attracts the broadest range of donors and lending agencies. Likewise, while the livestock industry could contribute substantially more to development, this sub-sector has received much less donor attention.

Temu also finds that in agricultural institutional development, the private sector received relatively more donor support (USD 90 million) than public institutions

TABLE 2:

Donor assistance to agriculture in Tanzania as reported to the OECD/CRS database (million USD)

	Category: Value chain node and focus	No. of projects	Total budget USD million	% share	Average per project USD million
1	Agriculture - Public Institutional Development	4	22.7	1.8	5.7
2	Agriculture - Private Institutional Development	3	89.5	7.1	29.8
3	Business - Private Sector Development	4	112.1	8.9	28.0
4	Business - SME-focussed	2	0.1	0.0	0.1
5	Livestock & Livestock Products Marketing	3	31	2.4	10.3
6	Livestock Husbandry	2	11.7	0.9	5.9
7	Crop - Production and Irrigation	24	345.7	27.3	14.4
8	Crop - Domestic Marketing	1	0	0.0	0.0
9	Crop and Livestock - Post-harvest	5	43.5	3.4	8.7
10	Trade - Private Sector Institutional Capacity Building	5	99.9	7.9	20.0
11	Trade - SME-focussed	1	-	-	-
12	Trade - Public Institutional Development	9	48.4	3.8	5.4
13	Trade - Quality, SPS, Laboratories, Inspection	12	32.4	2.6	2.7
14	Trade - Commodity Development	4	107.1	8.5	26.8
15	Infrastructure (roads, railways)	3	322.2	25.4	107.4
	Total	82	1 266.3	100.0	15.4

Source: Table 3, page 17 in Temu (2006), based on the OECD/CRS data

(USD 23 million). Notable examples of private sector support were strengthening producer organizations, microfinance institutions, and "empowerment" initiatives. Public sector support was for assisting government ministries in their normal functions, developing master plans, policy capacity, and so on. The analysis also showed that support to private business sector development and SMEs was comprehensive, significant and principally delivered through public institutions. These supports covered areas such as improving labour laws, regulatory mechanisms, and market access enhancement, all considered important for private sector growth, especially for a country still growing out of the command economy legacy.

Support to export commodity also received large donor support. Value chain analyses and studies have been central to articulating policies and programmes.[2]

[2] The US-supported Southern Highlands Agricultural Marketing and Business Acceleration (SHAMBA) and Private Enterprise Support Activities (DAI-PESA) have claimed that successful models in this area have been developed.

Interventions have been through individual producers' associations and agro-entrepreneurs. This support has been considered effective in expanding the export of speciality coffee, improved leather and sisal products.

Support for institutional capacity building for the private sector has also been high. This includes development of policies in support of the private sector in trade, inter and intra-regional agribusiness linkages, strengthening exporting food processors associations, promoting the use of IT in trade by local firms, and funding higher education courses in trade.

On the other hand, support for a number of other areas with a more direct bearing on exports was considered to be on the low side. This includes emerging niche markets, particularly for non-traditional exports such as horticulture, floriculture and fish, where "behind-the-border" constraints are serious. Local producers, processors and agribusiness firms face serious challenges to maintain required quality and SPS standards. Also, effective inspection systems and testing laboratories are other constraints that need to be addressed strongly.

There are often substantial discrepancies between what donors say they will spend (commitments), what they actually spend (disbursements) and what the government records as having received. It is also noted that in Tanzania there is a multiplicity of expenditure, accounting and reporting databases, often duplicative and frequently not sufficiently linked, and data discrepancies are commonplace. For instance, the MFEFD is not linked to the budget department in the MoFEA and data inconsistencies as reported by the two departments are common. In particular, aid commitments for projects that are directly funded (where resources do not go through the Exchequer) are often under-reported by donors in their reported commitments and projections to the government.

There is a time lag in reporting to a central location of project funds. All ministries, departments and agencies (MDAs) and local government authorities (LGAs) are required to report such direct project funds (more commonly known as D-funds), after execution, to the MoFEA. Turner notes that in practice such funds are not only reported late (thus missing on timely quantification) but also not fully.

Note that all these estimates of AfT exclude budget support which is a major concern given that budget support is an important aid modality in Tanzania, accounting for more than half of the total aid in 2006. So far discussions on budget support have concentrated on budget support as an aid category while it should be considered as an aid modality. This issue needs to be satisfactorily addressed if the numbers on AfT are to be meaningful. For instance, where a donor commits a majority of the ODA to budget support and where government prioritizes trade in its budget allocation, AfT figures will be significantly under-estimated.

Another issue is recording AfT flows in categories that can be compared with the OECD/CRS AfT codes. Individual countries are yet to adopt the same CRS codes used in the OECD/WTO database. As a result, sometimes there are huge discrepancies in AfT areas assisted.

The DTIS and DTIS-aligned AfT support[3]

The Action Matrix of a DTIS is a useful source for TRSMs or AfT because it is primarily geared towards identifying projects and programmes rather than policy. Table 3 provides an overview of various actions recommended in the Tanzania DTIS Action Plan. There are a total of 124 actions of which 72 (58 percent) are under cross-cutting areas and the rest 52 (42 percent) are product-specific. The proposals cover a wide range of actions under several trade-related areas. For each action, the nature of the action required is also provided. A simple counting of the recommended activities shows the following: i) 18 activities fall under the category implementing existing policy; ii) 62 under changing policy, legislation and institutions; and iii) 90 under technical assistance and investments. This shows that not all actions call for hard investment, although this will most likely dominate the overall portfolio in monetary term. There are also many activities that would not require large sums of money, such as implementing existing policies, formulating legislation and regulatory guidelines, reforming institutions and technical assistance. In other words, what is needed is a mix of actions, although sizable investments are also inevitable.

In an interesting exercise, a study commissioned by the Swedish agency SIDA assembled TRSM support to Tanzania based on the DTIS categories. The data cover a long period, 2000 to 2010, and were compiled in Tanzania itself (i.e. not the OECD/CRS data). This analysis is available in Turner (2008) and the following summary is based on this source. Table 4 presents the counts of the number of projects falling into various DTIS areas (the original SIDA source in Turner also provides other details like project title, budget where available, donors, and implementation period). A total of 216 projects were uncovered and classified under various DTIS categories. Note that this information should be used carefully because it only counts the projects and not the outlays - the size of the projects varies widely, from USD 4 000 for a training project to USD 36 million for Business Sector Programme Support and USD 102 million for a transport project.

[3] See also the previous chapter on mainstreaming for additional commentaries on the DTIS.

TABLE 3:
Number of actions identified under various areas in the Action Plan of the 2005 Tanzania DTIS

Policy/action area	# of actions recommended	Policy/action area	# of actions recommended
Cross-cutting areas		***Product-specific areas***	
1. Trade Policy	10	8. Gems and Jewelery	1
2. Market Access	3	9. Agricultural Export Crops (cross-cutting,	
3. Trade Insitutions	10	cashew, coffee)	10
4. Export Processing Zones	10	10. Horticulture and Floriculture	11
5. SPS Capacity	16	11. Tourism Backward Linkages	12
6. Transport	12	12. Spirces	8
7. Customs	11	13. Fish/Mariculture	10
		Total # of actions	124

Source: Tabulated from DTIS action matrix (DTIS 2005)

Turner also compares the DTIS-aligned SIDA data with those from the OECD/CRS database. She finds several significant divergences, e.g. total funding in the OECD data is four times the SIDA compiled total (the latter also covers identified AfT needs under both the narrow and broader AfT categories). On the other hand, in the *trade policy and regulations* category, the total in the DTIS-aligned data was double that recorded in the OECD total. Her remark for this was that this may be due to problems of separating different components of the same project and programme between different aid categories. For example, support to the Tanzania Revenue Authority is included under trade facilitation; however, the activities may cover a much broader remit beyond AfT. Alternatively, it may simply represent paucity of data recorded in the OECD/CRS database on trade policy and regulations. In addition, both the OECD and DTIS-aligned data exclude budget support, therefore under-estimating AfT flow.

This analysis shows that there are many difficulties in compiling, monitoring and comparing AfT data across sources (e.g. OECD, in-country, across studies). It will take lots of efforts, mainly in the country, before the differences are reconciled. Nevertheless, the above discussion provides a picture of the size and structure of AfT support to Tanzania, and it should be left at that.

2.2 Investment in agriculture

The focus of the above three illustrations was on the AfT in general – the first two based on OECD/CRS data and the third on DTIS-aligned data assembled in Tanzania

TABLE 4:

Number of Aid for Trade projects in Tanzania according to DTIS priorities (2000-2010)

Action in DTIS matrix	# projects
Trade Policy and Market Access Negotiations	29
Regional Integration	26
Competition and Trade Policy	3
Trade Institutions	53
Trade Policy Institutions	32
Export Development	21
Export Processing Zones	14
EPZ Regulatory Framework	4
Investment Promotion	10
SPS Capacity	14
Strategy and Priority Setting	5
Institutional Coordination on SPS	3
Plant Protection SPS: legislation, awareness and surveillance	3
Animal Health SPS: legislation, awareness, and enforcement	2
Laboratory Capacity: plant protection, animal protection, and food safety	1
Transport	28
Transport infrastructure	24
Public-Private Sector Dialogue on Trade Facilitation	4
Customs	15
Customs Import and Export Processing	12
Human Resources Dev. in Customs	3
Agricultural Export Crops	41
Cross-cutting Issues	41
Cashew	1
Coffee	7
Horticulture and Floriculture	1
Tourism Backward Linkages	10
Education	1
Supply of Local Tourism Products	9
Sprices	
Production and Productivity	1
Fish and Mariculture	11
SPS Issues	3
Supply Capacity	8
All total products	216

Source: Compiled from Table A2 in Turner (2008), which in turn was based on a compilation in Tanzania by SIDA in 2007.

itself (the TRSM data). This sub-section discusses support to agriculture. Two sources are used for this. One is a recent study by the OECD development centre (Wolter 2008) and the other is Tanzania's agricultural development programme (ASDP).

Wolter compiled data on agricultural sector support by donors, by tabulating data for 140 development projects for the fiscal year 2006/07 (Table 5). The actual number of projects is likely to be higher since the table only covers major bilateral and multilateral donors, excluding NGOs and non-DAC donors such as China or the Arab Bank. Also, donors such as the US operate mainly outside the GoT structure and therefore their projects do not appear in the table. Lastly, the ASDP Basket Fund is also counted as one project.

The table shows a total commitment of USD 445 million for the 140 projects. The allocation of support across various areas is interesting, although the table is said not to be comprehensive in covering all public support to agriculture. Wolter offers a number of interesting observations. In the case of support to farm/firm level, which amounts to about 10 percent in the table, first, the focus of donor support

TABLE 5:

Donor support to agriculture (for 2006/07, commitments in million USD)

	Area of intervention	Number of projects	Total commitment	Percent of total
1.	Firm/Farm level			
1.1	Access to inputs and irrigation	12	7.84	1.8
1.2	Production	19	15.63	3.5
1.3	Agricultural marketing	3	18.42	4.1
2.	Public Sector			
2.1	Agricultural policy and interventions	12	13.90	3.1
2.2	Trade, commerce, industry	9	12.53	2.8
2.3	Business environment	14	29.64	6.7
2.4	Specialized agencies	1	1.04	0.2
2.5	Economic infrastructure	46	280.34	63.0
3.	Public/Private Sector			
3.1	ASDP Basket	1	28.87	6.5
3.2	Business developmetn services	1	0.20	0.0
3.3	Advocacy/lobbying for policy reform	1	0.20	0.0
3.4	Other	3	14.88	3.3
4.	PSD Support			
4.1	General PSD support	10	12.21	2.7
4.2	Financial sector	8	9.30	2.1
	Total	140	445.00	100.0

Source: Based on Table 1 in Wolter (2008) has been on the upstream side of the value chain, i.e. primary production. There are also many projects around food security issues. Support to inputs – notably irrigation and maize seeds – is also popular, although Table 5 underestimates support to irrigation as this features prominently within the ASDP basket and not in other categories. Second, and this follows from the first point, support for downstream activities in the value chain – the core commercial farming activities - is relatively small. Also an area receiving limited support is marketing.

Third, some efforts being made to promote commercial agriculture, including involving small producers, appear promising. One example of a project explicitly targeting agribusinesses is Denmark's Private Agricultural Sector Support (PASS). PASS offers a credit guarantee fund to provide incentives for commercial banks to lend to the agricultural sector. It has also been quite successful in supporting small-scale but also some larger commercial farmers in developing business plans which are a prerequisite for accessing commercial bank loans. Targeting such programmes to subsistence farmers was found to be difficult as they cannot pay the consultancy fees and do not have collaterals. The Rural Micro, Small and Medium Enterprise Support Programme (MUVI in Swahili), financed by IFAD and Ireland, is meant to help smallholder farmers and fishers link up with processors using a value chain approach.

As regards donor support to the public sector, two observations were made. One is the large support to economic infrastructures (notably road construction): 14 donors supporting through 46 projects for a total of USD 280 million (63 percent of total). Improving the business environment is the second largest category (7 percent of the total). This is said to be in line with the fact that most donor support to the private sector is currently provided under the BEST programme which has a strong focus on improving the national regulatory environment. The same is true of financial sector support, under which most of the donor support goes to the Financial Sector Deepening Trust (FSDT).

Wolter also noted that currently no donor or project covers the whole agricultural value chain, which is now a priority in most policy frameworks. There is thus, he argued, a need for de-concentrating current support in primary production towards other elements of the value chain.

In Table 5, the ASDP basket was shown as one entity, with only about 7 percent of the total share. This only includes donor support to the ASDP fund – the ASDP is much bigger than this because bulk of the government's own funding to agriculture is channelled through it. Moreover, ASDP will be increasingly expanded as the main sector basket fund for agricultural investment with donors increasingly channelling their support through ASDP.[4] With the ASDP, the GoT envisages breaking away

[4] See the previous chapter on mainstreaming for more on the ASDP.

TABLE 6:

Proposed programme costs of the ASDP(total for 2006/07-2012/13, in USD million)

	ADSP Programme Components	Total cost by component	Expected contribution in % of component financed by			Component share of total cost (%)
			GoT	Donors	Farmers	
Component 1: Local Level Support						
1.1	Agricultural Investments	1262	77	6	18	65
	Irrigation	1156	81	1	18	60
	District Ag. Devt. Grants	105	32	54	15	6
1.2	Agricultural Services	147	69	30	2	8
1.3	Ag. Capacity Building and Reforms	44	7	93	-	2
	Sub-total Local programme	1453	74	11	15	75
Component 2: National Level Support						
2.1	Agricultural Services	83	34	66	-	4.3
	Research and Training	73	38	63	-	3.8
	Extension	8	14	86	-	0.4
	Livestock	2	-	100	-	0.1
2.2	Irrigation Development	367	99	1	-	19.0
2.3	Marketing & Private Sector Devt.	9	-	100	-	0.5
2.4	Food Security	4	-	100	-	0.2
2.5	Co-ordination and M&E	14	-	100	-	0.7
	Sub-total National Programme	477	82	18	-	25
	Total	**1930**	**76**	**13**	**12**	**100**

Source: Table 5 in ASDP Document

from past approaches based on fragmented and area-based projects with their own donor-specific systems, to a single comprehensive sector programme. It will be the major GoT instrument for achieving agricultural growth and poverty reduction as outlined in the agricultural development strategy (ASDS) and PRSP (the NSGRP).

The objective of the ASDP is to increase productivity, profitability and farm incomes by: i) improving farmers' use of and access to agricultural knowledge, technologies, marketing systems and infrastructure; and ii) promoting agricultural private investment. The focus of the ASDP is on commercialization of agriculture (from subsistence to profit) and the decentralization of implementation to district and field level. The ASDP consists of a local and a national component with three and five sub-components respectively. The implementation time period was increased from five to seven years. Table 6 provides an overview of the programme components as well as expected financing needs as estimated by the GoT.

The trend is for the government and donors to work together in formulating a consolidated set of interventions in support of the ASDP, with an increasing share of donor support to agricultural sector channelled through the ASDP basket fund. The use of the ASDP basket is itself a transitional arrangement toward General Budget Support (GBS).

The ASDP provides the strategy, policies and implementation details for support to agriculture. It is anchored to the ASDS and PRSP visions, and claims that its policies and programmes are mainstreamed because its preparation was guided by these and other key policy frameworks (e.g. Tanzania Development Vision 2025 and Rural Development Strategy 2002). It further claims to have moved away from the past framework where government and parastatals played the lead role in agriculture to a future where the private sector would play such a role. The ASDP design's five key principles are: i) increasing control of resources by beneficiaries; ii) pluralism in service provision; iii) results-based resource transfers; iv) integration with government systems; and v) national in scope.

Aside from large scale increases of funding to irrigation and research in particular, the ASDP plans to make substantive efforts at: i) creating an enabling environment for private sector participation in the provision of services to agriculture; and ii) supporting value chains as a whole, rather than just focus at the farm level as was the case previously. This strategy is said to be based on the guidance provided by the NSGRP, and by national trade policy where these measures are considered essential for boosting export. On the former, one major component outlined is: improving overall sector policy, regulatory and legal framework; marketing and private sector development; capacity building; and information and communication. On the latter, sub-component 2.3 of the ASDP (*Marketing and Private Sector Development*) aims at linking farmers to markets through value chains. Programmes include reducing marketing costs and risks for small and medium producers, traders, processors and other service suppliers. A host of constraints are identified, those that require not just investment but also policy reforms and laws.

3. Overview of policy frameworks for TRSMs

One fundamental principle about TRSMs is that these should be guided by and articulated from within national development and policy frameworks. It is for this reason that discussions on trade policy and trade mainstreaming in the previous two chapters are important for the topic of this chapter. What follows is a brief discussion of these policy frameworks from the standpoint of articulating TRSMs.

In the concluding section of the previous chapter it was said that Tanzania's PRSP (the NSGRP) was fairly weak on the trade side. This was also the view of a recent review of seven PRSPs from this angle (Driscoll *et al.* 2007). It seems that the NSGRP essentially "delegated" trade issues to Tanzania's 2003 national trade policy (TNTP03). Although thus the NSGRP did not say much on trade strategy and issues, it does provide some guidance.

The NSGRP sets fairly high growth rates for GDP, agriculture and livestock and determines that achieving these would require agricultural transformation - significant increases in productivity, modernization and commercialization, accelerated private-sector led growth, a competitive economy, efficient governance, and so on. One important role assigned to trade in this process is that external trade should stimulate domestic productive capacity and enhance competitiveness. The importance of liberalizing domestic trade is also stressed from time to time. Private sector is given high importance on all these. Consistent with all these is the emphasis on developing value chains, i.e. focussing efforts on commercialization and trade and not just production. Under Goal 2 in Cluster 1, the NSGRP outlines a growth strategy that focuses on specific products/services where Tanzania has and can create competitive advantages, with hints on value chains, but the proposals/views are not articulated well.

As the fundamental concern of the NSGRP is with growth and poverty reduction, agriculture as a whole is stressed throughout, with some elaborated treatment on food production and food security. The NSGRP is also balanced in that, when it speaks of trade, it accords high importance to both the export crops and food crops, including value chains of processed foods for domestic and regional markets.

The TNTP03 is sub-titled *Trade Policy for a Competitive Economy and Export-led Growth*. It is a comprehensive trade policy document with five chapters: background and rationale; economic overview; vision, mission and objectives; constraints and challenges; policy instruments; and implementation framework and action plan. Among the issues listed that the TNTP03 is meant to address include continuing policy shift towards a competitive market economy, using trade for poverty eradication and the development of the domestic market; safeguarding of domestic industry and economic activity threatened by liberalization, including identification of sectors to be protected; and addressing supply-side constraints that inhibit expansion of trade within the domestic and global markets.

The above shows that the TNTP03 is broadly consistent with the vision of the NSGRP, i.e. trade should contribute to continually transform domestic productive sectors towards a market-led competitive economy. Although export-led growth is stressed in many places, the TNTP03 is not overly one-sided by focussing on exports only as is the case with national trade policies of some other countries. Thus, for example, one of the goals articulated is: "to stimulate a process of trade development as the means of triggering higher performance and capacity to withstand intensifying competition within the domestic market". In other words, there are concerns also with import competition. This becomes very clear in Chapter 5 of the TNTP03 where several policy instruments are provisioned to ensure the growth of domestic import-competing activities and fair competition (e.g. "tariff has a role for protection", trade defence measures, policy on local raw materials use, State Trading Enterprise, and so on).

Tanzania's 2005 DTIS was discussed earlier. It is a detailed analysis of trade-related constraints and, based on this, recommends a comprehensive list of actions. Its one major weakness is the total focus on export products only. This was by design, and is not different from most other DTIS for other LDCs. It is also explicit on this: "The DTIS is aimed towards supporting the Government of Tanzania (GoT) in the realization of its National Trade Policy, the objective of which is to develop an export orientation for the country to enhance income and reduce poverty". Thus, while the DTIS is a solid contribution to a well-articulated export strategy, it misses out on bulk of the agricultural products – notably foods – that are so critical for Tanzania's growth and poverty reduction, and were addressed well by the NSGRP and TNTP03.

As regards *policy frameworks for agriculture*, as reviewed earlier, one finds that key strategies laid out in the 2001 ASDS and the more recent ASDP are essentially along the lines of the NSGRP. Thus, the AFDS also stresses on the strategies like commercialization of agriculture, prominence of the role of private sector and a holistic approach (through value chains).

Kilimo Kwanza ("agriculture first") (ACT 2010) was also reviewed in the previous chapter. Claimed as a blueprint for Tanzania's Green Revolution, it also stresses on the need for transforming agriculture into a modern and commercial sector. One of its 10 pillars, called *paradigm shift to strategic framework*, makes a number of proposals focussed on identifying and prioritizing areas/products for development. These include both food products and cash crops. In this sense, the *Kilimo Kwanza* is consistent with the previous policy frameworks other than the DTIS.

Finally, two *EAC policy frameworks* are also relevant here for articulating TRSMs. The EAC CET will limit Tanzania's policy space in some areas but also expand opportunities in others. With free intra-EAC trade and new activities proposed for regional value chains, especially of food products, Tanzania should gain given its comparative advantage on food production. The target is to double intra-EAC trade in food to 30 percent by 2015. Thus, Tanzania should support regional initiatives and formulate plans and projects for regional trade in food products.

4. Conclusions

Based on discussions in Sections 2 and 3, the following five areas appear as requiring priority attention in articulating TRSMs.

First, significant investments need to be made on raising agricultural productivity, notably for identified strategic food and cash products, as conceived in the NSGRP, as well as in the Kilimo Kwanza and AFDP. The ASDP plan for large-scale activities on irrigation and technology appears to be a response to that call.

Second, much more needs to be done on linking farmers to markets through value chains, leading to modernization and commercialization of the farm economy and creating significant backward and forward linkages in the rural economy and beyond.

Third, extra efforts are needed to ensure the participation of the private sector in the agricultural value chains, including in the delivery of inputs, services and finance. This was identified as being specially important given Tanzania's history of highly interventionist economic paradigm.

Fourth, given that Tanzania is recognized to have comparative advantage in producing surplus food, policy and regulatory reforms are essential for facilitating food exports to the regional markets. The EAC customs union is a big plus for this strategy.

Fifth, capacity building is needed in a variety of areas. These include trade surveillance capability (also related to trade defence measures in the national trade policy), monitoring food prices and managing volatility using trade and the SGR as instruments, policy analysis, and trade negotiations.

At the risk of some repetition, the following three points are considered worth noting again at the end of this paper; these came specifically from the background works done for this and other papers under the FAO project, including stakeholder consultations.

Recognizing the importance of TRSMs for the food sector as well – There is a general tendency in discussions on AfT to focus exclusively on export crops and products, and rarely on food products (which are typically importables and non-traded).[5] In Tanzania, this is the case with the DTIS, and to the extent the AfT is linked to DTIS, there is a risk that non export products – so vital for agricultural growth and poverty

[5] Indeed, the WTO AfT Task Force itself states thus: "Aid for Trade is about assisting developing countries to increase exports of goods and services, to integrate into the multilateral trading system, and to benefit from liberalized trade and increased market access".

reduction – may not benefit from new AfT resources. Aside from the DTIS, however, production and trade of food products, including national and regional value chains of processed foods, are given due prominence by other policy frameworks.

Taking a holistic view in identifying and reliving constraints along the value chain – It is necessary to reiterate the importance of this point: it is absolutely important that a holistic view is taken in supporting product development as a whole if the vision articulated in the NSGRP is to be made a success. Wolter (2008) noted that currently no donor or project covered the whole agricultural value chain. There is thus, he argued, a need for de-concentrating current support in primary production towards other phases of the value chain. Besides investment, policy reforms and regulatory measures are required and there is much to learn from successful examples from other countries in Africa and elsewhere.

The issue of clarity in defining, quantifying and monitoring AfT flows – The 2006 WTO task force on AfT has identified the following six categories for AfT: i) trade policy and regulations; ii) trade development; iii) trade-related infrastructure; iv) building productive capacity; v) trade-related adjustment; and vi) other trade-related needs. While it is known all along that categories 3 and 4 are the most binding constraints for trade expansion in most LDCs, it is not clear how one goes about measuring the "trade content" in total investment in these two categories.

Based on the lessons learnt during the course of the background analyses that contributed this paper, literature on AfT or TRSM in Tanzania, it comes out very clearly that trying to precisely define what is AfT or TRSM and what it is not - for the purpose of quantifying AfT or TRSM flows - is almost a futile exercise at this stage. This is mainly due to difficulties in ascertaining trade contents under categories 3 and 4. An attempt has been made in the OECD/CRS system to use a "trade development marker" to apportion part of the investment to trade in category 4, but this is highly subjective. A more doable and useful exercise would be to consider the following three categories *separately* for the purpose of monitoring and review: 1) trade development (categories 1, 2, 5 and 6); 2) productive capacity (separately for main sub-sectors, e.g. agriculture, industry); and 3) infrastructures.

In conclusion, many of these observations taken separately would not appear to be new to those following these issues, or as something that has not been thought or tried before. But what is new here is an attempt to discuss the TPSM or AfT agenda in the context of the key national policy frameworks. There will be always some differences in views on the priority areas for investment in terms of the returns on growth and poverty reduction, But this is normal and the best way to respond to that would be to put in place a system of monitoring and analysing the outcomes of the investment process, and subject them to effective stakeholder consultations.

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