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The U.S. Government's Global Hunger & Food Security Initiative



CASE STUDIES ON POLICY- CONSTRAINED VALUE CHAIN INITIATIVES

LEO REPORT NO. 45

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USAID
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Leveraging Economic
Opportunities

CASE STUDIES ON POLICY- CONSTRAINED VALUE CHAIN INITIATIVES

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COR USAID: KRISTIN O'PLANICK

CHIEF OF PARTY: ANNA GARLOCH

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DISCLAIMER

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ACRONYMS

ACDEP	Association of Church-based Development NGOs
ADVANCE	Agricultural Development and Value Chain Enhancement
AGP-AMDe	Agricultural Growth Project-Agricultural Market Development
ATA	Agricultural Transformation Authority
BFS/ARP	Bureau for Food Security/Agricultural Research and Policy
CET	Common External Tariff
CTEA	Coffee Tea Export Authority
EACWSE	Ethiopian Agricultural Commodities Warehousing and Services Enterprise
ECE	Ethiopian Commodity Exchange
EAC	East African Community
FTF	Feed the Future
GGC	Ghana Grains Council
GoE	Government of Ethiopia
GoT	Government of Tanzania
LEO	Leveraging Economic Opportunities
MSA	MarketShare Associates
RCT	Rice Council of Tanzania
TARIPA	Tanzania Rice Partnership
TRA	Tanzanian Revenue Authority
USAID	United States Agency for International Development
WFP	World Food Program
WRS	Warehouse Receipts System

I. INTRODUCTION

The value chain system approach acknowledges the key role that policy plays in enabling or constraining sector performance. As stated on USAID's [Value Chain Development Wiki](#):

“Improving the business environment by lifting constraints and filling gaps in the regulatory and administrative support mechanisms is central to any comprehensive competitiveness strategy for a targeted value chain. Consideration of the enabling environment should inform each stage of a value chain development project.”

The expectation that policy reforms that address policy constraints¹ positively influence private sector investment is a fundamental link or assumption in many market systems development and policy reform efforts. Critically, private sector investment is typically the key mechanism by which policy reform can achieve the development objectives (e.g., poverty reduction) of bilateral donors. Often the causal chain looks like that depicted in Figure 1.²



Figure 1. The presumed causal chain of policy initiatives for poverty reduction

Yet the existing evidence for this link is weak globally. In particular, it has not been well-documented within the context of USAID's Bureau of Food Security (BFS)'s Feed the Future (FTF) programming. In response, the Leveraging Economic Opportunities (LEO) project financed a [Review of Policy-Constrained Value Chain Initiatives](#)³ conducted by MarketShare Associates (MSA) that outlined a theoretical framework for the link between policy change and private sector investment, summarized recent evidence for this link and articulated the related measurement challenges. In recognition of the limited empirical evidence available, the review also recommended several Feed the Future projects that could serve as case studies. Drawing from those recommendations, LEO and BFS agreed to conduct the three case studies that are presented in this paper:

- The Agricultural Development and Value Chain Enhancement (ADVANCE) and ADVANCE II projects, implemented in Ghana from 2009 to 2018. This case study focuses on these projects' efforts to improve quality standards of maize, and resulting changes in investment by maize growers and traders.
- The Agricultural Growth Project-Agricultural Market Development (AGP-AMDe) project, implemented in Ethiopia from 2011 to 2016. The AGP-AMDe case study focuses on the project's efforts to address three main policy constraints: poor coordination among government entities involved in the coffee sector, challenges in the functioning of the coffee auction system, and the lack of a warehouse receipts system.

¹ As discussed further in MarketShare Associates. [Review of Policy-Constrained Value Chain Initiatives](#). 2016, this paper draws on two frameworks to define policy constraints in an agricultural context expansively, as including selling agricultural goods & markets (includes trade policy, import/export regulations and government certifications), obtaining seed & livestock inputs, obtaining fertilizer, accessing rural land, accessing finance, starting and operating a farm, enabling contract farming, transport & infrastructure, and management & information.

² MarketShare Associates. [Review of Policy-Constrained Value Chain Initiatives](#). USAID, 2016. Accessible at: www.microlinks.org/library/review-policy-constrained-value-chain-initiatives

³ Ibid.

- The NAFKA Staple Value Chain Activity, implemented in Tanzania from 2011 to 2016 alongside the SERA project.⁴ This case study examines the projects' efforts to address the lack of an organized entity to push back on government policies and enforcement mechanisms resulting in policies and enforcement regimes that impede value chain growth and competitiveness and deter private sector investments in agriculture. It focuses specifically on activities in the rice value chain.

This audience for this research is BFS' Office of Agricultural Research & Policy (BFS/ARP), as well as other donors and practitioners seeking to facilitate business enabling environment reform and measure the benefits of that work for target beneficiaries. It is anticipated that this work will support BFS/ARP to articulate the need for attention to policy issues in FTF value chain development projects.

II. METHODOLOGY

Each case study used a similar methodology. After the case study was identified and confirmed, the case study author first reviewed project materials, including progress reports and monitoring data. This determined the appropriate scope of the case study and the specific policy change(s) to examine. In the Ghana case it became clear that the previous phase of the project would need to be considered, while for Tanzania it became apparent that the case study would need to look at both the NAFKA activity and SERA project. The author then contacted the USAID country mission and relevant project staff to determine appropriate interviewees and develop an interview schedule. Once in-country, the author carried out interviews with the USAID country mission, project leadership, project monitoring staff and project partners (e.g., government, private sector). After completing the field work, a first draft was prepared and shared with LEO, USAID staff at the country mission and in DC. A final version was then prepared that incorporated their comments. Just one week in-country was available to conduct each study, so the sample size was dictated by the time available.

Several limitations were encountered in preparing these case studies. Primary among them was that some projects had never explicitly outlined an anticipated relationship between their policy work and increased private sector investment. This meant that the project had not explicitly sought to test the relationship between the two variables and did not have data that would demonstrate it. The case study author therefore needed to construct these linkages and infer linkages between those variables. A second limitation was that the Ethiopia project had already ended. This made the process of accessing interviewees (many of whom expected to receive an official invitation letter first) more difficult. A final limitation was that the timeframe over which the results of policy changes can be observed are lengthy. In the case of Ghana, reforms started during ADVANCE I only started to show results during ADVANCE II.

III. OVERALL FINDINGS

The selected case studies proved able to generate real-world evidence that supplements our existing understanding of the policy change – private sector investment link. The key lessons from the case studies include the following:

1. **Policy changes frequently require dissemination and supplementary investments to be adopted.** Many policy changes must be disseminated to have an impact. ADVANCE found that once quality standards were adopted, heavy investments were required to build understanding of the new standards. Policy changes often also require supplementary investments to be applied; in Ghana, government-monitored weighing scales and moisture monitors were both required to enable the policy to be followed.

⁴ A second phase of NAFKA was recently approved and will be implemented from late 2016 – 2021.

2. **Single policy changes are often unable, on their own, to generate significant private sector investment.** As the ADVANCE case observes, market systems are complex and dynamic. They face multiple and interconnected problems. As such, addressing one constraint may not be adequate to unlock private sector investment. There are typically other policies and other non-policy issues that simultaneously constrain investment. These other issues must be addressed simultaneously to realize the expected impacts. Increased investment is therefore often the result of a cumulative set of changes.
3. **The disincentives for private sector investment are often tied to the overall environment of how policies are made and applied.** A general environment of ill-informed policy making and inconsistent enforcement may influence private sector investment more than any single policy or enforcement mechanism. Consequently, implementers should pay attention to confidence levels in the private sector as a leading indicator that, if the direction of change remains positive and all other things remain equal, should increase investment levels.
4. **Flexible programming is important to address key barriers to private sector investment.** Given the complexity and dynamism of market systems, constraints cannot be predicted at project launch. Moreover, addressing policy constraints may reveal other constraints to investment not previously visible or create new responses in the market. For example, the quality standard policy changes that ADVANCE facilitated were complemented by farmers with improved knowledge on Good Agricultural Practices and post-harvest practices, and banks more willing to finance agricultural production. Projects therefore need the space to adapt their interventions to address issues as they emerge.
5. **Attributing changes in private investment to policy change remains extremely challenging.** As noted in the desk review that informed these case studies,⁵ it is methodologically difficult to confidently attribute private investment to policy changes. This is because of both the length of causal chains that characterized these interventions, but also the limited effort by many projects to use techniques that would support this understanding. Theory-based approaches can establish the basis to estimate the contribution of a project or intervention to observed investment changes by comparing an intervention's theory of change to the available evidence. Collecting quantitative and qualitative evidence for what changes are happening and why can steadily build an evidence base of the project's influence. Reviewing the evidence can inform the project's strategy, by understanding early on whether policy changes are creating desired effects, including leveraging private investment.
6. **There are similar patterns followed in many policy-change interventions.** The Ethiopia case study noted four key stages that were followed in the policy changes interventions. This may have implications both in how policy change can be facilitated, as well as in what needs to be measured to understand if it is on track. The stages include:
 - **Recognizing the problem and/or need for change and exploring options.** This involves conducting analysis that supports the need for the change, aligning the change need with the government's own objectives, and involving the experiences of others who had overcome similar challenges in other contexts.
 - **Building ownership of and momentum for policy changes.** In this stage the project steps back and seeks to influence key actors within the system to generate their own momentum for change.
 - **Enacting policy change through formal decrees, mandates, directives or systems changes.** The third step in the process is the actual enactment of the policy changes.
 - **Enforcing policy changes and then adapting changes and enforcement mechanisms to actual outcomes.** The final step is supporting the enforcement and institutionalization of the policy change(s).

⁵ MarketShare Associates. [Review of Policy-Constrained Value Chain Initiatives](http://www.microlinks.org/library/review-policy-constrained-value-chain-initiatives). USAID, 2016. Accessible at: www.microlinks.org/library/review-policy-constrained-value-chain-initiatives

7. **The full impacts of policy changes are often visible after project closure.** This means that measurement systems that only capture changes during a project's lifetime may miss out on the full impact of project interventions. Consequently, it can be critical to use leading indicators that can signal whether policy change is on track and investments are likely. These signs of 'directional correctness' can vary by context, but in the Ethiopia case study were deemed to include:
 - Expressions of interest in the problem and participation in events to explore options
 - Public officials and/or key stakeholders are championing the problem and convening others
 - Circulating reports and communiques and widening the stakeholder base consulted or actively involved
 - Progress through the procedures toward formal enactment
 - Communication and awareness raising of policy enactment
 - Implementation and iterative learning and adaptation with regard to policy outcomes
8. **Inclusive advocacy platforms can support policy change.** Platforms that have a broad membership of stakeholders can be better protected against retaliation by powerful players and have greater credibility with decision-makers. For instance, the Tanzania case found that a private sector-led entity could be a counter-vailing force against policy making and enforcement practices that hurt the rice sector. However, such platforms can struggle to survive absent project support and address the many demands placed on them by their diverse membership.
9. **Shifting institutional biases can have more pervasive impacts than a focus on policy change alone.** The Ethiopia case found that normative pressures and cultural expectations (i.e., institutional biases) were a strong driver of multiple policies and behaviors that assigned to the government functions (e.g., warehousing) that are often assumed by the private sector. The role of norms in systemic change is discussed further in a companion LEO paper, A Framework and Domains of Systemic Change. While focusing on influencing these biases is an even longer-term project than policy change, it would have the potential to have more significant impact and could reinforce other project interventions.

IV. GHANA ADVANCE I AND II CASE STUDY

Introduction

The Feed the Future Agricultural Development and Value Chain Enhancement (ADVANCE) project is funded by USAID is working with Ghana's government and other implementing partners and stakeholders to improve economic opportunities and diversify household income. It is working in the rural northern area as well as specifically on fisheries in the coastal areas. Implemented by ACDI/VOCA, the project's first phase (ADVANCE I) commenced in July 2009 and ended in March 2014. The project's second phase (ADVANCE II) is being implemented by an ACDI/VOCA-led consortium consisting of the Association of Church-based Development NGOs (ACDEP), PAB Development Consultants and TechnoServe. It commenced in February 2014 and is due to end in September 2018. Both phases have taken a facilitative, value chain approach with the aim of linking smallholder farmers to markets, finance, inputs, and other services through out-grower business models. ADVANCE focuses on the maize, soy and rice markets.

This study focuses on ADVANCE's work to revise the national quality standards for maize and the impact that this had on private investment. This focus was chosen because, while ADVANCE has engaged with a number of policy issues, the revision of quality standards for maize is the only policy change that has been enacted and that has had sufficient time for some impact to reveal itself in the market. ADVANCE's work on this issue commenced in 2010 with support for the establishment of the Ghana Grains Council (GGC). GGC is a private sector trade group that spearheaded, with ADVANCE funding, advocacy on grains quality standards. The Ghana Standards Authority approved the revised quality standards for maize in 2013.

Specific Policy Constraints to Private Sector Investment

DELINEATING THE MAIZE MARKET

The introduction of revised quality standards has had a differential impact across the maize market, particularly in terms of its 'formal' and 'informal' parts. As we shall explain, the policy change was designed, and appears to have had the effect of, strengthening and expanding the 'formal' part of the market. We start by defining what we mean by the formal and informal parts of the market.

The informal market, also referred to by market actors as the 'open market', is by far the larger part in terms of output and the number of actors involved. It is characterized by the sale of maize grain by producers (almost entirely smallholder farmers) to aggregators (mostly female and referred to as 'market women') at a physical marketplace, and then onwards to processors and retailers. These are spot markets where price depends on the relative bargaining power of buyers and sellers at the time of sale. There are no formal contractual relationships between buyers and sellers.

The formal channel is characterized by contracted relationships between buyers and sellers. Typically, these take the form of 'out-grower schemes' where producers (again, almost entirely smallholder farmers) are contracted to sell to community aggregators or 'nucleus farmers' who in turn, are contracted to sell to large aggregators. Sometimes producers have a direct contractual relationship with processors. In a sense, this formal channel provides farmers with a direct line of sight between their produce and higher value domestic and exports markets. ADVANCE has focused its efforts on expanding and strengthening this formal channel; indeed, ADVANCE and the Ghana Grain Council's efforts to revise the quality standards for maize were designed with this aim in mind.

Grain from both the informal and formal channels feed into the poultry and livestock industry where it is used in animal feed products; the food and beverages industry where it is used for a range of products including flour, grits and meal and beer; and into international organizations such as the World Food Program (WFP) and UNICEF.

POLICY PROBLEMS IN THE MAIZE MARKET

Historically, in both the informal and formal channels, there have been significant uncertainties in the way in which maize has been bought and sold. These have created a disincentive to private sector investment in the value chain. Of particular concern is the way in which maize grain has been exchanged between producers, aggregators and processors, introducing uncertainties in three ways.

Uncertain weight

Historically, trading has generally been done by bag and not by weight. This has been the case across the informal market and in much of the formal market too. Maize grain has been sold by what is known as the ‘maxi-bag’. What constitutes a bag of maize has been defined by a loose set of market norms. A regular maxi-bag can hold around 100kg of grain but in practice, a buyer can find they have purchased a bag containing anything from around 80kg to 150kg of grain. This introduces significant uncertainty for buyers and producers. As one put it in interview for this study:

“We may want 10 bags of 100kg but are unlikely to receive that from farmers. And the weight will probably reduce once we’ve cleaned the bags of spoilt grain and foreign materials. A bag of maize could really mean anything”.

Uncertain quality

Ghana has had a national quality standard for maize since 2003 but it was not generally known or used in practice. As a result, in both the informal and formal markets, any sorting of grain by quality has been subjective, imprecise and inconsistent. In the buying process, assessing the quality of the grain has been done by physical examination, which is by its nature subjective and imprecise. The buyer would establish the quality of grain by sight and touch. For instance, processors want dry grain and one method used to establish moisture content was to push a hand into the grain. If the grain was wet, your hand would be impeded. If it was dry, your hand would move freely. Buyers could judge the moisture content of the grain by the extent to which their hand was impeded as it moved through the grain.

Historically, some processors have had their own quality standard. Typically, these would take the form of a pass mark: a quality threshold, which, if not met, would mean that the grain would not be purchased. But again, physical examination made assessment subjective, imprecise and inconsistent across different buyers, introducing a great deal of uncertainty for sellers. Moreover, having to physically sort grain adds time and cost to procurement.

Uncertain price

Price has generally not been agreed at the time of planting but rather only once the crop is harvested (i.e. when farmers are ‘investing’ a proportion of their money, land and labor in a particular crop). At harvest time, on-the-spot negotiation has played a key role in the price paid for grain. Price has depended on the relative bargaining power of the buyer and the seller at the time of sale; introducing another level of uncertainty for both parties. As one animal feed processor put it: *“In the past, price depended on how desperate the farmer was to sell and how desperate we were to buy”.*

Implications: disincentive to private investment

These three levels of uncertainty – around weight, quality and price – have had a profound effect on the market. These effects came through clearly in informant interviews for this study. A processor buying a set number of bags of maize from a farmer cannot say with any certainty how much usable material he will receive (minus spoilt grain and foreign materials) and how much of the remaining grain will be of the required quality.

For processors, these uncertainties serve to undermine the attractiveness of buying local grain and thus, investing in local supply chains. Expansion of the formal market was stifled as processors chose not to invest their time or energy in formalizing contractual relationships with producers and aggregators, nor investing in inputs for producers. Indeed, as confirmed in interviews with several processors, these uncertainties increase the relative attractiveness of imported grain. Imports – coming

from a range of destinations including other West African countries, Europe, Russia and the United States – align to international quality standards. If, for example, a processor orders 1,000 kg of Grade Two grain (a high quality, fit for poultry feed), this is generally what will be received. As one processor put it: “*At least with imports you know what you are getting and what you’re paying for it*”.

Further down the supply chain, the incentives for aggregators and farmers to invest in their maize businesses are dampened where they lack confidence in what price they will achieve. Decisions around whether to invest in maize or other crops, or whether to invest in expensive inputs (e.g. improved seed, fertilizer) and post-harvest infrastructure (e.g. improved storage) are made more difficult when the expected returns on that investment are difficult to establish beforehand.

Project Strategy to Address the Policy Constraints

ORIGINS OF THE IDEA FOR REVISED QUALITY STANDARDS

During the early period of ADVANCE I, its strategy was to encourage Ghana’s larger processors (what ADVANCE referred to as ‘lead firms’) to source locally and invest in domestic supply chains. They envisaged working with a relatively small number of processors to establish out-grower models: direct contractual relationships with smallholder farmers. The theory was that support from ADVANCE would enable processors to act on an inherent incentive to invest in out-grower models that produced consistently high quality raw materials. In practice, this strategy got little traction. Processors saw investment in domestic supply chains as problematic citing multiple problems, not least the uncertainties around the purchasing process described above. Their preference was to continue to purchase imported grain and/or to purchase through local spot markets and aggregators.

In this context, ADVANCE chose to reassess its model early in its first phase. It developed a new vision for the market centered around nucleus farmers and aggregators, what ADVANCE refers to as ‘out-grower businesses’, connecting grain buyers/processors on the one hand, with smallholder farmers on the other. The main function of the out-grower businesses was to provide mechanization services, input credit and extension services. The out-grower business recovers the production support provided to the smallholder in kind (grains), and also buys the smallholder’s excess grain and sells in bulk to a buyer typically a processor or larger aggregator. Instead of a focus on large processors, ADVANCE would use out-grower businesses as the main conduits for market change. This model existed in the market but ADVANCE saw an opportunity to strengthen and expand it.

As part of its vision, ADVANCE and the Ghana Grains Council recognized the need for national quality standards to standardize safety and quality; as mentioned, maize quality standards existed on paper but were not being utilized in practice. No one was pushing for the adoption of quality standards in the maize market: a public, or at least collective, function that wasn’t being performed effectively. ADVANCE saw that any expansion of contracted relationships between buyers and sellers would depend on both parties having shared expectations around weight and quality. With less uncertainty around weight and quality, price could be negotiated upfront. In this way, revised quality standards were seen as an enabler of the out-grower model ADVANCE sought to strengthen and expand.

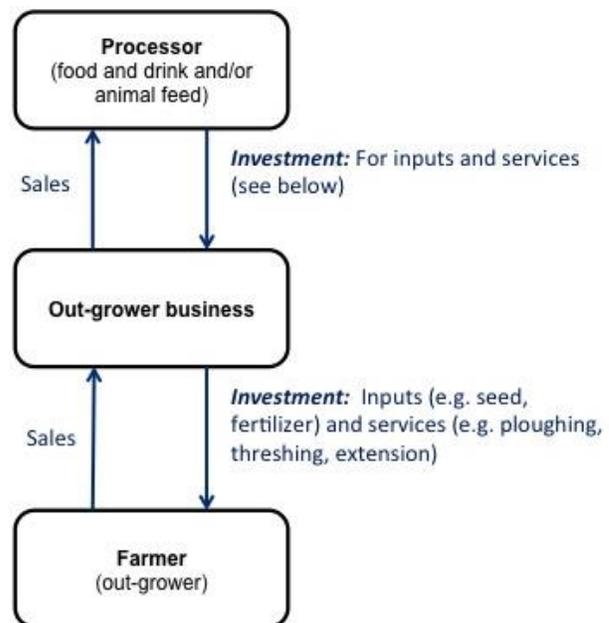


Figure 2. The ADVANCE out-grower model

THE ADVANCE STRATEGY FOR POLICY CHANGE

Having recognized the need for revised quality standards, ADVANCE chose not to lobby for change directly with the Ghana Standards Authority: the statutory agency mandated to ensure that quality standards are up-to-date and support industry compliance. ADVANCE wanted instead to support the private sector to do so, through a private sector-led membership body. In this way, policy change would be driven and shaped by an authentic private sector voice with two key advantages. First, it would help ensure the new quality standards met the needs of the private sector. Second, it would help ensure private sector ownership of, and support for, the new standards once they were approved. The problem was, no appropriate body existed. There were (and remain to this day) maize traders associations, particularly in the South. However, ADVANCE took the view that these were not appropriate partners as they were ‘informal’ in their operations and did not include processors in their membership. So, ADVANCE supported the establishment of the Ghana Grains Council during 2010. The genesis of GGC began through an ADVANCE-convened workshop with key private sector processors and players, where the issues were discussed and the idea floated. Early on, ADVANCE supported the private sector in its interest in a GGC through bringing in a specialist engaged with the East Africa Grains Council who could provide technical advisory services.

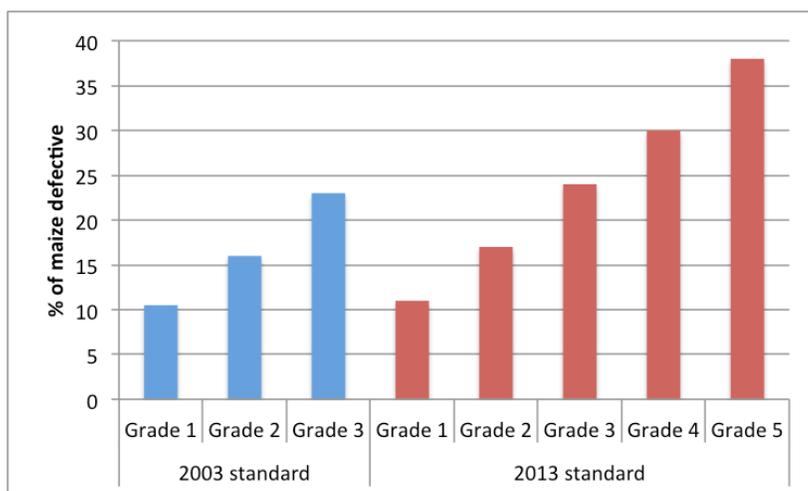
One of the Grain Council’s key activities has been to work with the Ghana Standards Authority on the revision of maize quality standards. ADVANCE has provide grants to the Ghana Grains Council for the following:

1. Funding of Ghana Standard Authority technical committee meetings on the review of the quality maize standard.
2. Funding for printing posters on the quality standards.
3. Funding of consultancy on the development of the maize pictorial and handbooks.
4. Funding of stakeholder sensitization workshops on the quality standards in collaboration with the Ghana Standards Authority and the Food & Drugs Authority, responsible for food safety.

The new quality standard for maize, approved by the Ghana Standards Authority in 2013, is a revision of the old standard that had been in place since 2003. It consists of five grades of maize grain from the highest (Grade One) to the lowest (Grade Five). Grading is established on the basis of the extent to which the grain is contaminated with disease, discoloration, damage, germinated seeds and/or foreign materials. In addition, the quality standard provides minimum requirements (the same minimum requirements for all grades) for fatty acids, heavy metals such as arsenic and mercury, moisture and aflatoxin. It requires trading by weight, and provides guidance on packaging and labeling.

The expansion from three to five grades carries several advantages. First, it means the standard is more inclusive of lower quality grain. A lower ‘pass mark’ offers a greater number of farmers the opportunity to access formal channels, as everyone has a market. Typically, Grade One grain is used for human consumption, Grade Two for chicken feed while Grades Three to Five for pig feed.

Second, the new five-grade structure aligns with international standard systems. In practice, there are restrictions on exporting raw maize. International organizations like the WFP however have permission to export some maize to poorer countries such



Source: Published maize quality standards documentation

Figure 3. Comparing maize quality standards in 2003 and 2013

as Mali and Niger. WFP use international quality standards so the new grading structure facilitates this. Indeed, the WFP participated in the development of the Ghanaian quality standards, as a member of the stakeholder consultation group. Moreover, the introduction of new, internationally aligned, quality standards paves the way for more substantive export in the future and indeed, a Ghana Commodity Exchange is due to be launched in 2017.

Perhaps the key strength of ADVANCE strategy has been the effort that has gone into disseminating the revised quality standard. As the 2003 quality standard demonstrates, it is not sufficient to have policy on the books: there must be awareness and understanding if it is to be adopted by the market. Directly and through the Ghana Grains Council, ADVANCE has put significant effort into supporting uptake of standards. Activities have included the distribution of the standard in pictorial form (see Figure 3) and training of farmers on its use. Again, through the Grains Council and Ghana Standards Authority, ADVANCE has supported the introduction of innovations that have in turn, supported adoption of the new standards. These include calibrated weighing scales and calibrated moisture sensors that help ensure that weighing and grading is done accurately and consistently across different buyers (see Figure 4). These instruments pre-existed ADVANCE but were available only on a limited basis in the food crops sector. ADVANCE's contribution was to promote the use of scales and moisture meters by providing matching grants (70 percent) the purchase cost to the farmer.



Figure 4. Pictorial quality standard for maize



Figure 5. Calibrated moisture monitor

Measured Impact of this Strategy on Policy Reform and Private Sector Investment

POLICY CHANGE

As described above, the Ghana Standards Authority approved revised standards for maize in 2013. There can be little doubt that ADVANCE has played an important role in bringing about this policy change. It has been instrumental in helping establish the Ghana Grains Council, who, with funding and technical assistance from ADVANCE and others, has been instrumental in developing and disseminating the revised quality standards in partnership with the Ghana Standards Authority. In interview, the Ghana Grains Council affirmed the importance of ADVANCE to the process. Further, several stakeholders doubted that the standards would have been updated, without ADVANCE's intervention.

INCREASED PRIVATE INVESTMENT INTO SUPPLY CHAINS

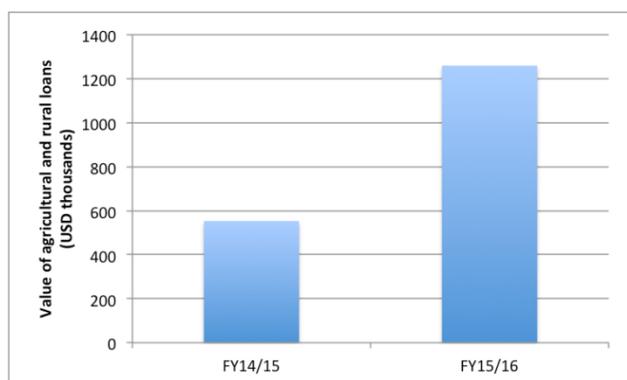
While ADVANCE II only commenced collecting monitoring data on private investment in financial year 2014/15 (this is when USAID brought in a requirement to collect this data), it still provides us with a useful indication of changes in private investment in the maize market. First, as illustrated in Figure 5, it suggests an increase in the value of agricultural and rural loans between FYs 2014/15 and 2016/17. The data refers to cash loans disbursed to recipients by formal financial institutions. Loans are mainly provided to out-grower businesses and processors who typically, will invest in inputs and services for their contracted farmers. We note an increase of 128 percent in the value of loans between FY14/15 and FY15/16. Data is only available to June 2016 so we cannot say with certainty whether the upward trend in loan value will continue. However,

ADVANCE are confident that the value of loans in FY16/17 will comfortably exceed their target of USD 1,000,000 citing the fact that just under half this figure had been disbursed by June with another USD 212,000 of loans already awaiting approval by the banks.

A Processor's Investment Through Outgrower Businesses

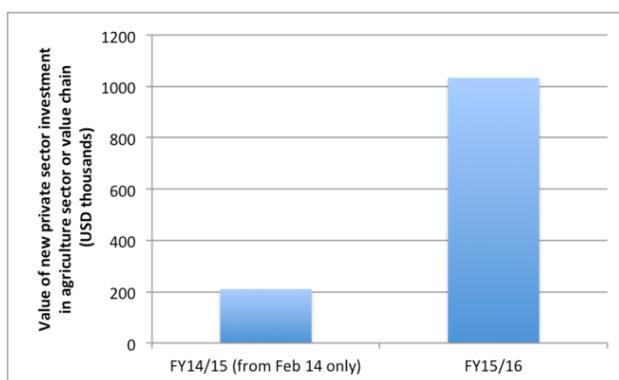
With support from ADVANCE, G. Bosomtwe Enterprise has started investing in its domestic supply chain. In 2013/14, they provided 120,000 GHS (around 30,000 USD) to 72 aggregators who in turn, invested down the chain in maize farmers. They found that 'recovery' was poor, 70 percent of aggregators fulfilled their commitment in grain (side selling may have been an issue but flooding also meant a poor year for maize). Undeterred, in 2015/16 they have increased their investment to 160,000 GHS (around 40,000 USD) but have put that investment into 45 proven aggregators. Investment was financed by a DANIDA subsidized bank loan from Sinapi Aba Savings and Loans Company. They plan to increase the number of aggregators (and thus farmers) they are working with and increase the acreage on which their supplies are being grown. Moreover, next year they plan to support farmers at harvest time – with weighing using calibrated scales. This will allow the company to ensure the correct weights and check quality without having to open up sacks.

In addition to loan value, ADVANCE collects data on investments made by out-grower businesses, processors and other market actors in capital (Figure 6). Such capital investment would include for example, tractors and storage facilities. Unfortunately the data is inconclusive as to whether investment is increasing or decreasing as, to date, ADVANCE has only collected one full year of data (for FY15/16). Interestingly, the data does provide some insight into who is making these capital investments. In FY15/16 91.8 percent of investment came from out-grower businesses and processors; 3.5 percent by farmers; and the remainder by input dealers and farmer based organizations. Clearly this shows out-grower businesses and processors as being the key investors in the supply chain.



Source: ADVANCE monitoring data

Figure 6. Value of agricultural and rural loans



Source: ADVANCE monitoring data

Figure 7. Value of new private sector investment

Informant interviews for this study support the idea that there has been an increase in private investment and that investments are being made predominantly by processors and out-grower businesses. More specifically, interviews suggest two broad types of investment:

- Processors investing in inputs and/or services to farmers directly. Alternatively, they have provided financing to out-grower businesses within their supply chains, to do the same. Typically, processors have invested in improved seeds, fertilizer, agro-chemicals and/or ploughing services. In a few cases, they processors have partially financed the purchase of tractors and other agricultural machinery.

- Out-grower businesses themselves have financed inputs and/or services to farmers within their supply chains. They have also invested in agricultural equipment either wholly or partially where they have accessed equipment cost sharing grants from ADVANCE.

Such investment at the beginning of the season would commit farmers and/or out-grower businesses to repaying in grain, at harvest time. These agreements are captured in formal contracts. Farmers have the right to sell surplus to other buyers, once they have repaid the volumes required by the contract.

In interviews, processors and out-grower businesses that had made such investments had, or were in the process of, increasing these investments. Moreover, they were keen to increase their throughput by improving productivity and increasing acreage under cultivation. At the same time, most were looking to be more selective about the farmers they were working with: investing more carefully in the ones that demonstrated that they would fulfill their contractual commitments, by repaying in grain, in full.

We can say with some confidence that ADVANCE has made a significant contribution to this increase in private investment into domestic supply chains. Processors and out-growers were adamant that ADVANCE has been instrumental into facilitating these vertically integrated out-grower schemes, without which, they would not be investing.

It is more difficult to establish what can be attributed to the introduction of revised quality standards. Two challenges stand out. First, changes we observe in the market since 2013 (e.g. an upwards trend in private investment) cannot be attributed solely to the introduction of new quality standards.

As a complex and dynamic system, changes in the maize market will be the result of a number of variables – including but not limited to numerous ADVANCE interventions – and the interplay between them. For example, just looking at project interventions, ADVANCE has put significant effort into creating market linkages and training farmers on Good Agricultural Practices and post-harvest techniques. It has subsidized capital investment and has encouraged lending by financial institutions. It would be extremely difficult to isolate the impact of revised quality standards on private investment from the impact of these other interventions.

Second, while there are methodologies that can be used to get a sense of the contribution made by specific interventions (e.g. intervention specific theories of change / impact logics), ADVANCE has not used them for this intervention.

Notwithstanding these challenges, processors and out-grower businesses we interviewed report that their investments were made possible by the new quality standards. When asked whether they would have invested without the new grading structure in place, processors were unanimous in their answer:

“I doubt it...it would have been very difficult”.

“We wouldn’t be able to predict what we would get back. You make an agreement for 10 bags, but 10 bags of what? What weight? What quality? The farmers would give you rubbish and say “I’ve given you 10 bags”.

“Before, the potential for misunderstanding was big. Now we know what to expect so we can invest”.

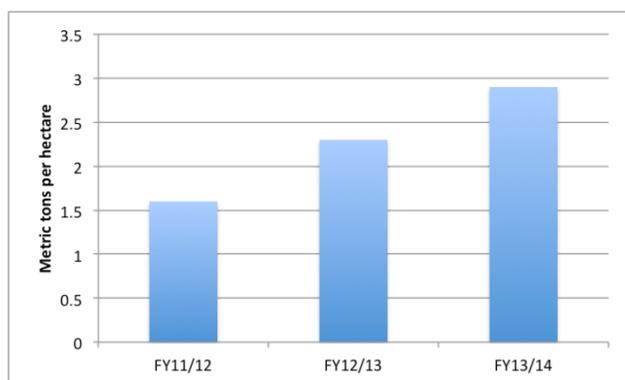
A Processor’s Investment In Out-Grower Scheme

In previous seasons, Agri-Care Ltd would import and buy from aggregators, without any investment into the supply chain. This year (2016/17) Agri-Care has invested around 293,000 USD into 120 farmers (inputs and services), producing 2,000 MTs across two seasons. These 2,000 MTs will meet 70 percent of their requirements. They will import the other 30 percent. This increases the proportion of maize grain sourced locally: in previous year’s Agri-Care would import around 45 percent of their grain requirement. Agri-Care’s Managing Director has ambitious plans for next year. He plans to scale-up Agri-Care’s out-grower scheme to 10,000 hectares and 1,650 farmers. He calculates a future investment (again, in inputs and services) of between 6m USD to 8.5m USD depending on the level of investment farmers themselves are able to put in. He reports that some lenders are showing interest. This would produce double Agri-Care’s processing capacity, leaving surplus raw material available to sell to off-takers such as the WFP, the breweries and Nestle.

With the new quality standards in place, agreements can now be made on the basis of a common language and shared understanding of what is expected from each party. Functioning vertically integrated supply chains based on transparency and accountability have become easier and more attractive to establish and invest in.

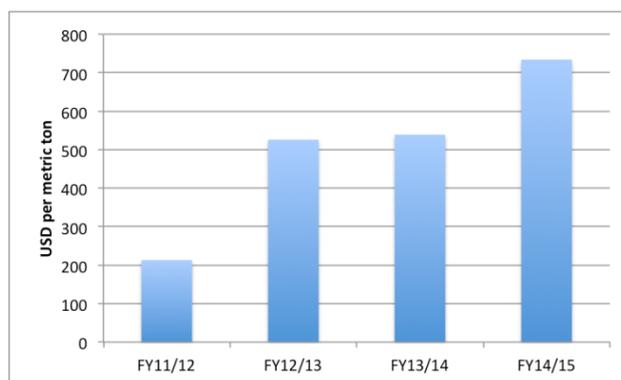
IMPACT AT FARM LEVEL

The introduction of revised quality standards has been a building block for improved access for farmers to the formal market, i.e. ADVANCE supported out-grower schemes. ADVANCE monitoring data suggests that this access has led to significant benefits for participating farmers. As Figure 7 illustrates, maize yields have increased by 81 percent over three years; 2014/2015 data indicates that trend has continued, with yields increasing to 3.42 mt/ha (an increase of 100 percent). Moreover, as illustrated in Figure 8, farmers are achieving greater gross margins on those yields, increasing by a staggering 244 percent over four years.



Source: ADVANCE monitoring data

Figure 8. Maize yield



Source: ADVANCE monitoring data

Figure 9. Gross margin from maize

We cannot rule out that other factors may have contributed to increases in gross margins for maize. For example, the annual average farm gate price for maize in Sunyani (a major maize producing area in Ghana’s middle belt) increased by 24 percent between 2011 and 2013 (years for which we have available data).⁶ However, our interviews support the finding that farmers have benefited significantly from participation in formal out-grower schemes. It was reported that, at the informal (local) market farmers are ‘price takers’. Without other options, buyers at the market know that farmers are unlikely to want to incur the transport costs of taking grain back from the market. They have captive sellers. The possibility of selling into a formal supply chain means that farmers have greater choice – they may very well take their grain home, if they believe they will achieve a better price for it. Moreover, spot markets tend not to reward for quality. If you have better quality grain, you are likely to sell more quickly but are unlikely to receive a premium for it.

Farmer testimonies too are instructive. A smallholder farmer based in the Upper East Region linked to out-grower business, Samuel Abiyiga in Sandema, reports:

“Sales were done in the comfort of my home without cost of transport to the market. I was paid cash after weighing, unlike market women who will have to take the produce on credit and pay by installments. Abiyiga also bought my maize using a scale and I got surpluses from my bags, and gave me more money than selling it at the market”.

Another smallholder farmer also based in Upper West Region, linked to John Dimah, an out-grower in Gwollu, reports:

⁶ Food and Agriculture Organization of the United Nations (FAO), ‘Analysis of price incentives for maize in Ghana’, Technical notes series, p24.

“I sold my maize in bulk to G. Bosomtwe through John Dimah who paid immediately after the supply. I was able to conveniently use the money to buy building materials like roofing sheets for my construction project. Selling in bits to the market women and aggregators would not have brought me the bulk money and so I could not have invested in my construction project in the way I did”.

It is important to note that it is not necessarily the case that selling into the formal channel, using the quality standards will result in a better price for producers. One of the largest and best-established out-grower businesses reported that processors do not always provide a premium for better grain as they also have the option of importation. Price parity with imports is a key determinant in the market.

As is the case with private investment, attributing these benefits for farmers to a single change in the market, fails to reflect the reality of the change process. We can however conclude that the revised quality standards have contributed significantly: enabling the expansion and strengthening of out-grower schemes, that in turn appear to have delivered significant benefits to farmers.

IMPACTS OUTSIDE OF ADVANCE SUPPORTED SUPPLY CHAINS

As mentioned, ADVANCE’s focus has been specific supply chains in the formal part of the maize market. As of the end of August 2016, ADVANCE has around 95,000 registered farmers that they count as ‘project beneficiaries’, meaning farmers that are the recipients of ADVANCE support. They claim that around half of these farmers have received training on the adoption of quality standards. Beyond this, outside the ADVANCE supported out-grower schemes, there is so far little adoption of quality standards. In general, the informal ‘local’ market does not use the new grading structure although interviewees reported some rare exceptions. It was reported for example, that in some communities market sellers will break down their bags of maize into the new standard 50kg.

It is early days, only three years since the revised standards were approved. The Ghana Grains Council admit that a wider market response to the new quality standards has been slow but put a positive spin on it: *“baby steps to something bigger”*.

Lessons Learned

THE IMPORTANCE OF CUMULATIVE IMPACT AND ADAPTIVE PROGRAMMING

It is likely that, on its own, the introduction of a revised quality standard would have been insufficient to unlock private investment or develop the maize market significantly. As described, the introduction of the standard was a necessary step for the expansion and strengthening of out-grower models and it is these models that are attracting investment. However, several other changes – farmers with improved knowledge on Good Agricultural Practices and post-harvest practices, and banks more willing to finance agricultural production for example – have proved equally important in getting out-grower models working. It has been the cumulative effect of several ADVANCE interventions that has brought about an increase in private investment. Policy change was just one, albeit essential, part of this.

The ADVANCE experience demonstrates that there are no ‘silver bullets’ to market change and private investment. Markets are complex and dynamic systems with multiple and interconnected problems and as such, tackling one constraint may not be

From Farmer to Aggregator, The Story of Yongdakpemvili Ltd

Started as a simple farming business providing grain, including maize, to a large and well-established aggregator, Gundaa Ltd. From these beginnings, Yongdakpemvili Ltd. was established in 2012 as an aggregator in its own right selling to Gundaa but to other large aggregators as well. It now has relationships with 100 registered farmers, all of whom it provides ploughing services to. Yongdakpemvili has started investing more substantially in inputs (improved seed and fertilizer) for its ‘best’ farmers: 10 farmers last year, 20 this year. In interview, Yongdakpemvili reported that having quality standards (in addition to training provided by ADVANCE) has been important to its development from farming to aggregation. The common language of the new quality standards allows it to build relationships with farmers as there is mutual understanding as to what is expected of each party.

sufficient to unlock private investment. There are implications we would highlight here. First, development projects need scope and flexibility to diagnose and tackle multiple constraints, wherever they find them, across the public and private domains. Second, because not all market problems will be visible upfront, and because changing the status quo may actually create new market dynamics, projects need to adapt as they go.

MEASURING THE IMPACT OF POLICY CHANGE ON PRIVATE INVESTMENT

The ADVANCE experience demonstrates how challenging it is to determine the impact that a particular policy change has had. Or to put it another way, it highlights the challenge of attributing observed changes in the market that can be measured (e.g. increased private investment) to a policy change.

Some intervention ‘types’ allow for easier measurement. For example, if a project encourages farmers to switch to a new crop that had not previously been farmed in the region, then all benefits from that crop are likely to be attributable to the project. On the other hand, policy changes tend to be several causal steps removed from market outcomes such as increased private investment, so they require more sophisticated techniques.

There are a number of methodologies that can be used to establish the contribution made by an intervention, or indeed, a project. These methodologies are as applicable to policy change as they are to any intervention ‘type’ (e.g. direct subsidy to a private actor). An experimental approach for example would try and *attribute* a degree of private investment to a policy change. Apart from the significant resource costs, experimental methods that use a control group are subject to difficulties regarding self-selection bias and contamination effects. They are often not suited to assessing the wider market system impacts that policy change interventions seek to contribute.

A more workable ‘theory-based’ methodology would focus on assessing the *contribution* of a policy change to private investment and other market outcomes. The approach would center on comparing an intervention’s ‘theory of change’ to the available evidence. The process is one of testing whether the theory and its assumptions hold true in practice. The process should be undertaken systematically and regularly to iteratively build up a convincing and plausible evidence-based narrative on the effects that policy change is having, in direct or indirect ways. Ideally, the evidence base would consist of a combination of quantitative and qualitative data focused on testing and proving the impact logic. If the theory of change does not happen as expected, the project might assume that the policy change has not contributed to market outcomes, or that it has contributed but through some other route. The process would have a formative effect in that projects could quickly understand whether or not policy change is delivering the market outcomes that were envisaged at the outset.

ENCOURAGING THE EFFECTS OF POLICY CHANGE

Development projects cannot assume that once public policy has changed, its effects will be felt broadly across the market. In this case, only those actors that ADVANCE has engaged with directly have adopted the revised quality standards: processors, aggregators and farmers within ADVANCE-supported supply chains. As discussed, several aggregators and processors we interviewed pointed out that the standards have not been adopted by local spot markets, which consists the larger part of the maize market in Ghana.

Even within ADVANCE supported supply chains, ADVANCE has needed to encourage dissemination of the standard with supplementary acts of facilitation. Most obviously, ADVANCE has provided training on adherence to the quality standing as part of its training on GAP and post-harvest practices. It has also supported the Ghana Grains Council to promote new technologies that support the measurement of grain against the standard: weighing scales and moisture monitors, both calibrated on a regular basis by the Ghana Standards Authority.

The lesson to be drawn is that projects cannot assume that policy change will automatically lead to wide-scale market change (e.g. broad-based private investment). A better assumption is that awareness and understanding of policy change may need to be promoted and its effects encouraged.

V. ETHIOPIA AGP-AMDE CASE STUDY

Introduction

The focus of this case study is to explore how the Feed the Future Agricultural Growth Programme-Agribusiness Market Development project (AGP-AMDe) addressed policy constraints in the coffee value chain in order to increase private sector investment.⁷ In particular, the project worked with the Government of Ethiopia (GoE) on how to coordinate its support to the value chain, ensure warehousing and quality control services, and develop a coffee traceability system as part of its national trading platform.

Unlike more liberalized economies, the GoE is considerably involved in the coffee value chain and is seen as the primary engine of research, production gains, export promotion, and trade facilitation. This involvement is critical to understanding the context of this case, project choices, and lessons learned as they are discussed below. The level of GoE's involvement also helps explain, in part, the challenge of increasing private sector investment; while the direction of policy changes achieved by the project would seem to favor more private sector investment, expected increases have yet to occur in any measurable fashion.

AGP-AMDe represents USAID's contribution to the Government of Ethiopia's Agricultural Growth Programme (AGP). The AGP-AMDe project, which began in 2011, ended in the first half of 2016. Its objectives were to improve the productivity and competitiveness in value chains that offer jobs and income opportunities for rural households. It targeted interventions in the coffee, sesame, chickpea, honey, maize and wheat value chains for their potential to improve both food security and incomes of smallholders.

To achieve its objectives, AGP-AMDe pursued results in four components:

1. Improving the competitiveness of selected value chains through better market linkages, skills building of actors, establishment of mechanization services, introduction of improved seeds, and establishment of soil analysis and fertilizer sales and services;
2. Improving access to finance through more appropriate lending and insurance products and an increase in value chain financing between cooperatives and producers;
3. Improving the enabling environment of selected value chains;
4. Stimulating increased innovation and investment by taking advantage of outcomes achieved to improve the enabling environment

This case study concerns the project approach, outcomes and lessons with regard to the last two components. Perhaps not surprisingly, however, achievements in improving the enabling environment can be traced to i) the project strategies to shift policies or enforcement practices and ii) the way in which the project leveraged its other activities to complement its more direct efforts. There is more on this in the last section.

⁷ Although AGP-AMDe pursued other policy changes affecting, for example, seeds and fertilizer sectors, its work addressing policies in the coffee value chain provide an instructive and coherent set of activities and lessons learned.

ETHIOPIAN COFFEE SECTOR

Ethiopia is ranked eighth in world coffee production, fifth in production of Arabica⁸ and is the largest coffee producer in Africa. Coffee is the largest generator of foreign exchange in Ethiopia, accounting for 32 percent (\$823 million) of all foreign revenue in 2011. That same year it produced 400,000 MT of coffee and exported 196,000 MT.

Many recognizable and high value coffee varieties originate in Ethiopia such as, Yergacheffe, Sidamo, and Harar, which earn premiums from international buyers. Buyers also pay more for coffee that has been wet-processed, where washing stations separate the fresh coffee cherry from the bean. However, only one-third of Ethiopian coffee is wet-processed. The bulk of coffee harvests are sun-dried after which the bean is extracted with mechanical hullers.



Nearly 90 percent of coffee is produced by over 5 million smallholder farmers who, on average, grow coffee on less than one hectare of land. The rest is produced by large estates. Producers, individually or in cooperatives, are eligible to sell their coffee directly to local or international buyers (although it still passes through the ECX grading system first). All other traders and processors in the value chain must utilize the GoE's Ethiopian Commodity Exchange (ECX) trading platform to sell. Typically, after local washing, hulling and sorting, coffee destined for the ECX trading platform enters a regional warehouse where it is graded and stored.

The ECX was launched in 2006 as a means of ensuring better prices for farmers and stabilizing prices and production in a number of commodities including wheat, beans, sesame, and maize. It is a semi-autonomous entity within the Ministry of Trade. In 2008, the ECX was mandated to include coffee among its other commodities, replacing the GoE's auction system for overseeing coffee transactions. Presently, 85 percent of Ethiopia's coffee passes through the ECX. Its overall operations include an auction floor in Addis Ababa, a clearing system to settle sales contracts, regional assaying centers to determine the quality of commodities, regional warehouses, and real-time dissemination of price information to local markets.



In addition to the ECX, the GoE is highly involved in the coffee value chain in other ways, largely because of the importance of coffee to the national economy and livelihoods of so many people. Through an array of regulations and ministerial mandates, the GoE has institutionalized its role. For example:

- The development of new varieties and planting material for farmers falls to public research institutes.
- Production campaigns to attract new farmers to coffee production, build capacity of existing coffee producers, transfer new technologies, etc., is the responsibility of the Ministry of Agriculture.
- Trade promotion of Ethiopian coffee on the international market is organized by the Ministry of Trade.

Specific Policy Constraints to Private Sector Investment

In many other country contexts, the constraints outlined below might not be considered policy issues. Instead, resolving these challenges would largely fall to the private sector such as, for example, improving supply channel traceability to satisfy end-

⁸ Arabicas are a group of high quality, high-altitude coffee varieties that typically have higher margins than Robusta coffees.

market requirements. In the Ethiopian context, however, because of the institutionalized functions of the GoE, such constraints to the competitiveness and inclusive growth of the sector become policy ones and, as such, were the focus of the AGP-AMDe project.

The policy constraints in the coffee sector targeted by AGP-AMDe include:

- Poor coordination among government entities overseeing different institutionalized functions within the coffee sector: As seen above, critical functions are championed by research institutions and different entities with the Ministries of Agriculture and Trade. The diffusion of responsibilities combined with poor communication and misaligned incentives built silos of perceptions between institutions making it challenging for new ideas to propagate and change to take place. For example, while officials promoting trade would champion building brands of existing regional varieties, production officials prioritized opening up new regions for coffee production.

Each entity understood challenges to the coffee sector differently. For example, higher yielding coffee varieties were often developed by research institutes without consideration for end-market requirements. Also, campaigns to expand production and increase yields were not always timed with campaigns to penetrate new markets resulting in price drops and a flagging perceived value of Ethiopian coffee on the world market.

This constraint has indirect bearing on private sector investment. Given the reliance on the entire industry on GoE involvement, if this involvement is uncoordinated or ineffective, then investors have generally less confidence in, for example, the placement of new washing stations or the marketing of untested and unreliable varieties.

- Although commercial actors disliked many aspects of the previous public auction system, the system enabled buyers to know their suppliers and vice-versa. The trading platform under the ECX does not have any mechanism for buyers to trace the coffee they buy back to particular suppliers or producers. For the specialty coffee market, which is 20 percent of the global market and offers the highest premiums, this is a problem. Specialty coffee buyers are interested in the people who grow the coffee they buy; they want to know their stories and incorporate these into their marketing campaigns. These buyers are also likely interested in fair trade or certifications from organizations like the Rainforest Alliance. In essence, they are looking to develop a reliable supply-base of coffee from known locations around which they can craft a marketing strategy.

Currently, only 10 percent of Ethiopian coffee reaches the specialty coffee market and most of this comes from large estates and cooperatives. In all, 20 percent of Ethiopian coffee satisfies the requirements of specialty coffee buyers and, given the size of the market and attractiveness of Ethiopian coffee, this has the potential to increase by 75 percent. Furthermore, even in more conventional coffee markets (such as in the EU) traceability is slowly becoming the competitive norm. While accurately perceiving end market requirements by producers has always been difficult, the ECX platform exacerbates this problem. In addition, it reduces the incentives of exporters to invest their own resources to develop a particular supply base. In fact, long-standing exporters note the entrance of new exporters who sell coffee at lower prices in order to generate foreign exchange with which to import merchandise with higher margins.

- The lack of a fully functioning warehouse receipts system (WRS) as part of the ECX constrains the working capital private sector actors can obtain. In the 1990s, the GoE enacted legislation laying the foundation for a WRS and an initial pilot operation was underway but was abandoned (or postponed) when the ECX came online in 2006 with the mission, in part, of operationalizing the WRS. The ECX is now issuing warehouse receipts, but it is not a fully functioning system with the features and benefits of other WRSs: there is significant pressure to move the commodity out of the warehouse, as charges increase after a few weeks. Thus financing a warehouse receipt becomes impractical, and traders try to move it out before the additional charges start. The ECX has been unable to fully develop the WRS given its many roles and responsibilities and competing priorities such as getting its warehousing and grading services running smoothly and operationalizing its traceability system.

In the coffee value chain, there exist a number of other non-policy constraints that impede growth and competitiveness. On the surface these issues manifest as:

- Low productivity of smallholders on small plots of land due to poor application of agro-inputs and good agricultural practices to improve coffee quality
- Poor access to and availability of finance, agro-inputs, and other support services
- Limited access to and availability of certified quality control laboratories and technicians
- Limited availability of coffee washing stations (only a third of coffee is processed in this manner), the preferred processing method for higher value coffee sold on the global market
- Limited suitable warehousing in the right locations

INSTITUTIONAL BIASES AS OVERARCHING CONSTRAINT

One might argue that these constraints are systemically connected to a national preference, or institutional bias, for public sector institutions to play a prominent role in regulating and/or filling critical functions in market systems in Ethiopia. For example, with regard to the coffee value chain, the diffusion of GoE institutions do not seem particularly good at aligning market incentives from buyers down to producers, which might otherwise drive advancements in quality and productivity or investments in better processing facilities. Also, the “silos of perspectives”⁹ and institutional nature of GoE entities does not seem particularly adept at embracing or driving a process of innovation and experimentation. If accurate, these assertions may imply the need for influencing a directional shift of the GoE role away from filling market functions.

Project Strategy to Address the Policy Constraints

Complicating project strategy to address policy constraints is the GoE’s strong ambivalence or aversion to foreign intrusion in its policy making process. In order to make progress, the project adopted a combination of the following two strategies for most of its policy interventions:

1. Ground the need for policy changes in terms of how improvements will help the government meet its own targets: In the coffee sector, for example, the project often used the government’s own objective to increase annual growth in exports by 8 percent, which it would find difficult to do if the current situation was left unchanged.
2. Leverage the expertise of other, developing country government officials and their experience overcoming similar challenges.

In this manner, the project’s strategy was not to be prescriptive in its recommendations. Instead it followed a roughly three-phase process and let outcomes (conclusions, decisions, ownership, etc.) be led by the key policy stakeholders:

1. Generate the interest among key policy makers about particular issues and help them explore possibilities for resolving problems or improving situations
2. Once interest is generated among key policy makers around particular issues and a general policy direction decided upon, provide resources and additional expertise to facilitate deliberations of stakeholders into, for example, gaining greater buy-in and settling details and courses of action
3. Where necessary, provide additional resources to launch initiatives to demonstrate proof of concept

⁹ Bisrat Ermias, responsible for coffee marketing on AGP-AMDe

In particular, and relevant for each of the three main policy constraints above (poor coordination, lack of traceability and lack of a fully functioning WRS), the project took the following tactical approaches toward generating interest among policy makers:

- *Benchmarking of practices in other countries:* AGP-AMDe commissioned a study of the policies, institutional structures and practices in key coffee producing countries like Colombia and Guatemala who have faced challenges akin to those in Ethiopia.
- *Study tours:* Multiple study tours were organized in order for Ethiopian government officials to meet counterparts in countries who had experience in either WRS, traceability systems or institutional reform. In some cases, the project was able to invite participants while for other study tours, it had to entrust GoE officials to invite the right participants. Unfortunately, private sector actors did not participate in these study tours for a variety of reasons, but they benefited from other sets of activities described below.
- *Conferences and other events:* The project organized conferences and gatherings of stakeholders in order for people to share their experiences and perspectives with regard to options for improving either of these policy areas. More often, however, it contributed resources and assisted GoE participation at conferences like those organized by the African Fine Coffee Association and the Specialty Coffee Associations of American and Europe. At these conferences, it strove to include issues germane to the specific policy constraints and forge connections between Ethiopian public and private sector representatives and counterparts in other countries.

In the second phase, once interest had been piqued and a direction of change was emerging, the project shifted either to more of a background role providing technical expertise and guidance as and when necessary or to a more prominent role in driving the change process. For the constraints related to institutional coordination and a fully functioning WRS, the project largely shifted to a background role as GoE entities sufficiently owned and led the processes.

For traceability, however, the project found it necessary to play a more intensive role in order to help set up the traceability system and demonstrate the system's effectiveness. Activities began by helping organize a steering committee of representatives from ECX, Ministries of Trade and Agriculture, coffee exporters, and producer organizations. The committee's purpose was to explore and determine solutions for operationalizing a traceability system within the existing ECX platform. Over numerous meetings and months, several alternatives were debated.

Once an operational model was agreed upon, the project strove to have a pilot traceability system functioning for part of the 2015 coffee season and, thereafter, fully operational for the 2016 season. The following outlines the steps AGP-AMDe took to support the pilot:

- Project staff registered over 1000 washing, hulling and sorting stations (of 2500 total in the country) in key coffee production zones. Given the logistical difficulty of tracing coffee down to the small plots of smallholders, stakeholders agreed to trace coffee only as far as the nearest processing facility.
- The project purchased two million coded tags and distributed 800,000 to the first-stage processing facilities that would be affixed to bags of coffee before shipping to ECX warehouses where they would be graded and stored. For the entire coffee crop, ECX would need approximately two million tags annually.



ECX traceability tag

- With a \$1.8 million grant from AGP-AMDe, \$1.3 million from the Sustainable Coffee Program¹⁰, and \$1.4 million of its own funds, the ECX upgraded its trading platform with traceability software and hardware.
- During this process, the project helped ECX streamline its grading process, reducing the number of grades from ten to six and training ECX quality control technicians.
- Multiple round-table sessions were organized to orient stakeholders and raise awareness of the value of the traceability system and generate discussions.

Measured Impact of This Strategy on Policy Reform and Private Sector Investment

It appears that AGP-AMDe interventions contributed to specific policy shifts. For instance:

- The GoE re-instated the Coffee Tea Export Authority (CTEA), a quasi-independent agency responsible for coordinating activities to develop the coffee sector that were previously diffused among multiple ministries and agencies. The CTEA, under the Ministry of Agriculture, was formally re-instated in mid-2015 and is still consolidating its mission, infrastructure and portfolio of activities.
- Chances for a fully-functioning WRS were greatly improved when the Ministry of Trade separated the warehousing and quality control functions from the trading platform of the ECX. The new entity, the Ethiopian Agricultural Commodities Warehousing and Services Enterprise (EACWSE), will be in charge of the physical storage structures and coffee grading process. The AGP-AMD project hoped this move would be a precursor to liberalizing the warehousing and services market, although improvements in the capacity and suitability of the existing warehouses (some of which are rented from the private sector), along with reductions in losses from coffee theft and mis-grading, will need to be addressed for the system to work.
- The Ministry of Trade directed ECX to ensure coffee traceability. The directive was presumably made in support of the \$1.3 million the ECX contributed to traceability software and hardware upgrades. However, although the separation was known to be in the works at some point, it was made before ECX hived off its warehousing and grading services to the new EACWSE, leaving it unclear who will own and operationalize the traceability system.

Apart from the significant monetary contribution by ECX to developing the traceability system, project staff report difficulty in securing buy-in from the ECX and other stakeholders for the system and commitments to cover future operation costs through 2019. This is in part due to the effort to implement the traceability across the system, instead of phasing the traceability program by targeting it first only in areas where a market premium existed that would support the cost (e.g. to the EU, not to lower quality Middle Eastern markets). As such, much of the initial implementation fell to AGP-AMDe such as registering rural processing facilities as part of the system or the logistics of printing and distributing coded tags to the same washing, hulling and sorting centers.

While laying the groundwork for traceability, AGP-AMDe continued to push for buy-in and commitments from stakeholders, largely by getting international buyers to use their influence on ECX management. Separation of trading and warehousing services of the ECX had been supported by other donors at ECX prior to AGP-AMDe's start, but AGP-AMDe was part of the influencing group of actors supporting this emergence of EACWSE.

¹⁰ The Sustainable Coffee Program is a global public private initiative of industry and trade partners, producers, governments and research institutions, donors, NGOs and standard setting organizations in the coffee sector.

At present, and in the absence of clear ownership, championing the traceability initiative has fallen to the Agricultural Transformation Authority (ATA).¹¹ The ATA's task is to figure out where to institutionalize and how to operationalize traceability in addition to finding additional donor support to see it through its start-up phases.

The above changes have all occurred within the past six to eighteen months and, understandably, have not resulted in any changes in private sector investment. Anecdotally, it appears that the private sector is maintaining a holding pattern, waiting, presumably, for a positive directional change in GoE institutional performance, or at least to get through the messy start-up phases of each of the above significant institutional changes.

For example, since, or even before, the ECX took over the coffee trading platform, the value of Ethiopian coffee on the global market has slipped. In comparison to average prices for comparable grades from Rwanda or Kenya, the global prices of Ethiopian coffees are noticeably lower.¹² In addition, albeit a separate issue, a common complaint is that the ECX has steadily homogenized coffee varieties and quality to the lowest value, unable to differentiate and segregate different grades and varieties sufficiently. Another recurring complaint is that the trading platform allows new entrants into the market to buy and export coffee below market value in an effort to generate foreign exchange with which to import goods with higher margins.¹³

When, and if, traceability systems mature enough to reliably connect suppliers with buyers, one might expect to see private sector investment in, for example:

- Fair Trade, Rainforest Alliance, or organic certification of production
- Marketing and branding of new varieties and provenances of Ethiopian coffee
- New washing stations to replace drying and hulling processes for higher value coffee

With regards to the first two bullets above, this would also require advancements in warehousing and the ability to trade identity-preserved coffee on ECX. With regard to private sector investments in warehousing and services, these will likely have to wait until the EACWSE solidifies its own operations. By then, however, the GoE may not be overly inclined to grant licenses to private operators if they will compete with the EACWSE. In other sectors, like fertilizer distribution and blending, the GoE has shown a similar reticence, despite specific policies permitting private operations, to grant licenses to operators in an area where it exercises considerable control.

Lessons Learned

As private sector investment has yet to materialize, this case provides few lessons for facilitating and measuring such outcomes. However, there are at least three key lessons with implications for facilitating and measuring policy change. The first concerns the stages of change as seen in Ethiopia and the strategy and tactics employed by the project. The second relates to the protracted timeframe of change and opportunities for measuring change. The last lesson looks at the role of underlying cultural norms or institutional biases in shaping the GoE's involvement in market systems.

STAGES OF CHANGE

From this case, the policy changes went (and, in some cases, continue) through four distinct stages. That there are recognizable stages has implications for i) the types of facilitation strategies and tactics to employ and ii) measuring change along the way. These stages, along with examples and insights from project implementation, include:

¹¹ The GoE's ATA identifies systemic constraints to agricultural development; undertakes studies, provides training and builds capacity, contributes guidance to new legislation; and supports linkages among agricultural stakeholders.

¹² USAID FTF AGP-AMD, December 2011, "Rapid Value Chain Survey of Wheat, Maize, Coffee, Sesame, Honey, and Bean/Pulses with AMDe Project Activity Recommendations"

¹³ Recognizing this phenomenon, the GoE has passed measures to curtail such practices.

1. **Recognizing the problem and/or need for change and exploring options:** AGP-AMDe actions played a lead role at this stage. Sensitive to GoE mistrust of foreign intrusion, the project's strategy of using i) analytical findings to demonstrate a need for change to meet GoE's own objectives and ii) the experience and expertise of counterparts who addressed similar problems in other countries generated desired outcomes.
2. **Building ownership of and momentum for policy changes:** At this stage, the project was able to shift from a lead to supporting role with regard to the eventual emergence of the CTEA; with the EACWSE, made was one of a number of actors who supported its emergence. Prominent project activities included ongoing study tours (such as to see warehouses in South Africa) and seeding agendas of international and local coffee conferences and events to ensure particular topics were discussed and relevant experts were on hand. The project also played a role staffing steering committees and providing technical guidance to the formation of CTEA, EACWSE, and operational models for traceability.

For other policy changes pursued by AGP-AMDe, outside of ones directly related to the coffee value chain, the project ran out of time before seeing policies formally enacted. To ensure continued momentum, the project worked closely with GoE officials and other international donors so that its policy recommendations were included in a Revised New Alliance for Food Security and Nutrition Framework, which would make these policy recommendations part of GoE policy commitments moving forward. The lesson here is not that project time limitations are insufficient for policy change stages but that, given these limitations, projects can successfully exit by embedding ownership and/or continued momentum elsewhere.

3. **Enacting policy change through formal decrees, mandates, directives or systems changes:** Enacting policies is, of course, a critical milestone, but it is seldom the end of the story. Instead, how and whether policies are enforced or operationalized reveals more about the overall success of a policy change initiative. For some of AGP-AMDe's other policy change initiatives, policies favorable to private sector investment had already been enacted but were poorly enforced. In taking on these issues, the project's approach reflected the stages of change here, but with the aim of generating ownership and momentum for applying existing policies in a consistent manner.¹⁴
4. **Enforcing policy changes and then adapting changes and enforcement mechanisms to actual outcomes:** The CTEA and EACWSE had only just reached this stage by the end of the project. AGP-AMDe did, however, play a role at this juncture with regard to operationalizing the traceability system. Amidst the challenge of securing buy-in and monetary commitments, getting a traceability pilot going and sowing the seeds for its continuation after project's end, AGP-AMDe took on a lead role in driving the process. There are indications that this strategy has not worked as planned, largely because of the complicated logistics and coordination needed for the system to work properly.

The start-up system appears to be hitting its fair share of snags and glitches, not uncommon for an operation of this magnitude. The primary lesson here suggests value chain projects be proactive in anticipating possible issues related to policy enforcement, one of which may be the need for the project to ensure that implementing agencies have adequate learning and adaptive capabilities to see them through and sufficient time under project guidance to develop these capacities.

TIMEFRAMES AND MEASURING CHANGE

Two observations from the stages of policy change of this case are that i) timeframes of change are lengthy and ii) measuring change might best be done in terms of *directional correctness* (or *undesirability*, as the case may be). Appreciating, and being satisfied with *directional correctness* becomes a useful way of framing project contribution, especially in a context where the government is averse to foreign involvement in the process and where there is value in generating local ownership and moving project assistance to a supportive role.

¹⁴ One example is AGP-AMD's work getting the GoE to grant licenses to private sector investors to operate in the fertilizer processing and distribution chain.

Measures of *directional correctness* could be signs of success, or failure, at each stage and used to help projects adapt strategies and tactics accordingly. For AGP-AMDe, efforts toward institutional restructuring (leading to the CTEA) and operationalizing a WRS (leading to the creation of the EACWSE), a possible set of indicators of directional correctness appeared to be:¹⁵

- Expressions of interest in the problem and participation in events to explore options
- Public officials and/or key stakeholders are championing the problem and convening others
- Circulating reports and communiqués and widening the stakeholder base consulted or actively involved
- Progress through the procedures toward formal enactment
- Communication and awareness raising of policy enactment
- Implementation and iterative learning and adaptation with regard to policy outcomes

INSTITUTIONAL BIASES

The consistent pattern of broad GoE involvement in market systems is shaped by normative pressures and cultural expectations, also known as institutional biases. A common thread across many of the policy change initiatives pursued by AGP-AMDe was the GoE assumption of functions often left to the private sector in other countries. For instance, traceability systems and warehousing, elsewhere, are where the private sector has proven relatively adept at introducing innovations and infrastructure.

In order to create space for more private sector involvement in Ethiopia, and in countries with similar patterns of government reach, value chain projects may wish to strategize and be more intentional about shifting such pervasive biases. In all likelihood, the timeframes and stages for success would be longer than initiatives to change particular policies. However, addressing the underpinning systemic issues, alongside more focused efforts, would complement these efforts and contribute to a process whereby smaller policy changes are increasingly framed around regulating how the private sector conducts business instead of replacing it all together.

¹⁵ It is unclear whether AGP-AMDe had this set of indicators. These are instead roughly illustrative of the course of events leading to these policy changes.

VI. TANZANIA NAFKA AND SERA CASE STUDY

Introduction

The focus of this case study is to explore how the Feed the Future NAFKA Staple Value Chain and SERA projects, two projects in Tanzania, addressed policy constraints in the rice value chain in order to increase private sector investment. In particular, the study examines the efforts of these projects to facilitate the emergence of the Rice Council of Tanzania (RCT), an apex organization for domestic rice producers, to advocate for more transparent and orderly policy making and enforcement processes to the benefit of the rice sector. This case study also examines the respective strategies and tactics employed by the RCT and SERA to influence and change specific policy decisions of the government of Tanzania (GoT). The outcomes and lessons of these efforts are discussed in the context of the durability of changes to the Tanzanian enabling environment and their effect on encouraging private sector investment.

The Feed the Future NAFKA Staple Value Chain project (referred to as the NAFKA project hereafter), began in 2011 and recently ended in September 2016.¹⁶ The primary aim of the five-year project was to improve the competitiveness and productivity of the maize and rice value chains and facilitate domestic and regional trade of those commodities. It also aimed to increase benefits for all stakeholders, particular women and youth and spur general innovation and private sector development. The vast majority of project activities were in regions outside the capital. Its entry into pursuing enabling environment improvements was based on a recognition that many of its achievements in productivity, competitiveness, and trade were constrained by the enabling environment. Using its connections with the private sector, it was able to mobilize them to advocate for a healthier enabling environment.

The SERA project is another five-year initiative (2011-2016) whose lifespan coincided with that of NAFKA. Its original objectives were to build sustainable capacity within the GoT to create and use evidence-based research to inform policy decisions and implementation. However, after initial assessments, it quickly shifted to address shorter-term policy reforms that were of immediate consequence to the agricultural sector and donor efforts to develop the sector.

THE RICE VALUE CHAIN

Tanzania has emerged as a significant producer of rice in the East African region, accounting for 65% of production. After Madagascar, it is the second largest producer in Africa. In the past ten years it has dramatically increased production from just under 725,000 MT of milled rice in 2001 to 1.4 million MT in 2011.

Ninety percent of the country's annual production still comes from smallholder farmers cultivating rice on an average plot size of 1.3 hectares, of which only 25% to 35% is commercialized; the rest is consumed within villages. Although there remain numerous village-level, small-scale hulling mills, there has been an increase in recent years in the number of medium-sized mills capable of cleaning and sorting rice for higher-end markets. In the rice value chain, farmers either mill their rice themselves or sell paddy to intermediaries who, after milling, channel bagged rice to regional and national wholesale markets. From here, rice makes its way to local consumers or is further aggregated for export.

¹⁶ A second, four-year project has picked up where its predecessor, NAFKA, left off.

Not only do Tanzanians increasingly consume local rice, most prefer it to Asian rice, which is typically imported from Pakistan. Many find that even the second-grade Tanzanian rice is better and cleaner than imports. This sentiment extends to other rice consuming markets across East Africa, making Tanzanian rice a valuable commodity despite its consistently higher price compared with average world market prices for rice.¹⁷

The upward trajectory in production and increased national reliance on rice as a food crop has garnered political attention with GoT officials, who are concerned about shortages and price stability for large numbers of producers and consumers alike. This trend is an important dynamic underlying many of the policy constraints outlined below.

Specific Policy Constraints to Private Sector Investment

While there are several specific policy constraints to private sector investment, this case is interesting mainly because of how NAFKA framed the constraints as a single systemic challenge; namely, the lack of an organized entity to highlight and create public awareness of government policies and enforcement mechanisms resulting in policies and enforcement regimes that impede value chain growth and competitiveness and deter private sector investments in agriculture. The following presents clear examples of such policies and ad hoc or weak enforcement mechanisms that negatively affected the rice value chain, either alone or along with other commodity sectors:

- The GoT revises its import restrictions in ad hoc and largely opaque ways that create instability in rice prices and expected business returns. The most recent and egregious example occurred in 2013. The GoT, without any forewarning, quickly solicited, reviewed and awarded nine applications from importers with licenses to import rice duty free.¹⁸ Previously, as part of the East African Community (EAC), Tanzania had agreed to apply a Common External Tariff (CET) of 75% on rice imports. Rice could then be traded within the EAC without any further duties. As a result of the duty-free imports, rice prices in Tanzania dropped below the break-even values for commercial and smallholder producers. In addition, neighboring EAC countries imposed a 35% to 75% tariff on all Tanzanian rice.
- Weak enforcement mechanisms for controlling rice imports and transshipments allow actors to exploit significant differences between Tanzanian and world market prices and effectively smuggle large volumes of rice into the country. For instance, Zanzibar is seen as a way-point for illegal shipments of rice to the mainland. The island has a lower CET of 6% for rice and recently, if figures are accurate, has imported enough rice to provide its population with 48 kilograms of rice per person per day.

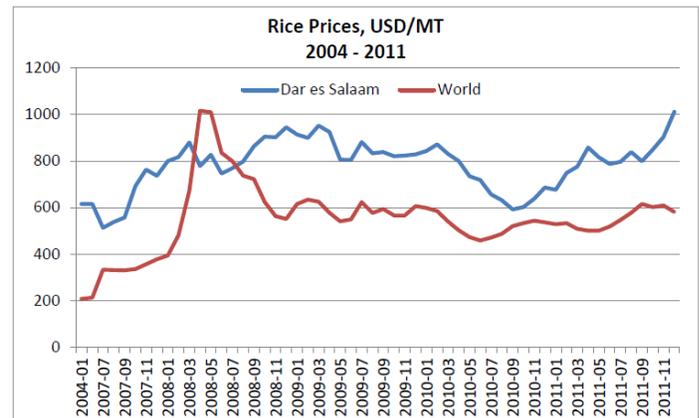


Figure 10. Rice Prices in Dar vis a vis Global

Note: World market price is for Thai 5% broken FOB Bangkok; domestic price is wholesale for Tanzania aromatic rice of top grade in Dar es Salaam market.



Blending Asian and local rice

¹⁷ Figure 1 appears in Stryker, D. June 2012 “Study of Policy Options for Increasing Tanzanian Exports of Maize and Rice”, USAID FTF SERA Project
¹⁸ The actual quotas and actual volumes imported remain unclear although they are believed to be substantial, especially in view of their effects and retaliatory measures of neighboring countries.

In addition, investigators¹⁹ have documented the unloading of imported rice shipments bound for landlocked countries and then blended with Tanzanian rice to be sold on the local market as local rice. A 2012 study²⁰ corroborated these findings by comparing records from exporting countries with official import records of Tanzania, noting that most imported rice does not pass through official Tanzanian customs channels.

- The frequent imposition and lifting of formal export bans for cereals with little to no warning creates a high degree of unpredictability and instability among all actors in the rice value chain. Over an eight-year period starting in 2004, the GoT imposed, lifted and reintroduced export bans five times.²¹

Table I. Chronology of Cereals Export Bans

Year	Events
2004	Minister of Agriculture and Food Security imposes export ban.
Jan 2006	Export ban was lifted for two months.
Mar 2006	Export ban reintroduced.
Jan 2007	Export ban lifted.
Jan 2008	Export ban reintroduced.
May 2008	Export ban lifted
Jan 2009	Export ban reintroduced
Oct 2010	Export ban lifted
March 2011	Export ban informally announced
July 2011	Export ban formally effective
Oct 2011	Export ban informally announced
Jan 2012	Export ban formally lifted

Several reasons are given²² for the above policy choices and weak and ad hoc enforcement regimes, including:

- The GoT requires the capacity to make evidence-based decisions with regard to setting agricultural policy. In particular, it needs the mechanisms to collect data about, for example, expected production estimates, commodity stocks and flows, and effects of policy changes on production and investment patterns.
- Despite the lack of data, the political importance of maize, rice and other cereals to national food security create pressures on the GoT to intervene.
- The interests of approximately five, super wealthy business actors, who have networks of connections across government sectors, influence decisions and enforcement regimes in their favor.²³ Given their ability to operate in grey areas of the economy, these actors thrive in adverse environments. With regard to the above export bans and changes in import restrictions, they are among the few to obtain licenses.

The reverberations from the instability and uncertainty created by the above constraints manifest themselves across the agricultural sector. For example, according to several reports and business operators, the unfavorable enabling environment has negatively affected:

- The interest of regional buyers to rely on Tanzanian rice as a source of supply
- The ability of local traders to develop and motivate a supply base of smallholder farmers

¹⁹Rice Council of Tanzania, “Tanzania’s Rice Industry is Under Threat”

²⁰ Stryker, D. June 2012

²¹ Stryker, D. June 2012

²² Stryker, D. June 2012 and interviews with key informants for this case study

²³ CEO SAGCOT Center

- The opportunities of smallholders to intensify and expand rice production in more commercially oriented ways
- The willingness of businesses to make medium- to long-term capital investments

Within the rice value chain there are a number of non-policy constraints to private sector investment that are not uncommon to a value chain dominated by smallholder farmers. These include the difficulty of agribusinesses to develop and manage an atomized supply base of smallholders who have poor access to and availability of, among other things, finance, land, quality agro-inputs, effective storage, and technical support. However, in view of the scope of the above policy constraints and the uncertainties and instability they engender, a plausible argument could be made that the success of donor-supported efforts to address non-policy constraints strongly depend on improving the overall enabling environment.

Project Strategy to Address The Policy Constraints

This section looks at approaches to address policy constraints in two ways. First, it outlines NAFAKA's approach, with support from the SERA project, to facilitate the emergence of the Rice Council of Tanzania to advocate for private sector interests. Second, it explores the respective strategies and tactics of the SERA project and the RCT to influence the GoT to i) lift export bans, ii) eliminate the duty-free imports of rice and enforce import restrictions against smuggling, iii) institute systems and mechanisms that collect data related to production, commodity stocks and flows, and effects of policy changes on production and investment patterns.²⁴

Facilitating the emergence of the RCT

The genesis of the RCT began as a group of potential investors in the rice value chain in the SAGCOT²⁵ area, brought together by NAFAKA. The group, originally known as the Tanzania Rice Partnership (TARIPA), was organized and housed within the project. With the lifting of import duties on rice in 2013, the group decided it needed to advocate its interests with the GoT.

TARIPA then became the RCT, an independent, private sector-led organization, officially registered in June 2014. Never intended to be a large organization, it now has two full-time staff, an advisory council of 30 members and a nine-member board. NAFAKA does not have a seat on the board but acts as an informal advisor, preferring to ensure that the GoT and stakeholders perceive the RCT as an industry body and not a donor-funded, foreign entity.

Along the way, the form of NAFAKA's support transitioned in order to fully separate itself from the RCT. For most of a year, NAFAKA supported the RCT through a local NGO, subcontracted to the project. Now, the RCT is an independent recipient of grants from NAFAKA and SERA.

The grant from NAFAKA, which ended in July 2016, covered the salaries for the Executive Director and an Accountant. Support from the SERA activity allowed the hiring of a policy analyst and completion of an organizational strategy. The RCT offices are co-located with NAFAKA, who also pays for rent and utilities, although both parties are keen to find an opportunity for RCT to be located off-site. The long-term business model or pathway to viability is, for the moment, unclear with member interests ranging between two possibilities:

1. Membership dues support one individual to stay abreast of issues, consult with members, and continually represent member interests to the GoT across ministries and branches of government.

²⁴ Efforts to institute systems and mechanisms for collecting data extend back before either of these projects and include efforts of other donors in addition to those of USAID.

²⁵ SAGCOT stands for the Southern Agricultural Growth Corridor of Tanzania, an area of land from Dar es Salaam to the western border that follows the country's central rail and power lines. SAGCOT was launched in 2010 as part of the World Economic Forum Africa summit and is a vehicle for developing agriculture and promoting investment in the corridor.

2. A combination of membership dues, grants and revenue from for-fee services (e.g., market intelligence, trade facilitation, quality control, product branding, etc.) support the activities of a larger organization to advocate for member interests and lead initiatives to develop the rice value chain in Tanzania.

The RCT approach to policy change and stronger enforcement

Initially, RCT members were split over which strategy to pursue to influence the GoT to re-impose import tariffs and control smuggling. Some wanted the RCT to take an activist approach, threatening strikes and demonstrations. Others wanted to engage and negotiate with the GoT with the aim of making the RCT a long-term advisor to policy decisions. The latter group won out and the RCT embarked on a campaign to raise awareness with the GoT of the effects of policy decisions and enforcement measures on the businesses and livelihoods of actors across the rice value chain. Its activities included:

- An issues paper submitted to the Office of the President outlining the negative effects of imported rice and its recommendation to re-impose the CET of 75% and more closely enforce import regulations.²⁶
- Collecting 11,000 signatures of smallholder rice farmers in support of the statement, “the steady flow of Asian rice is threatening the Tanzanian rice industry” and presenting these to multiple ministries and branches of government.
- A rapid assessment of illegal imports, taking pictures of clandestine operations to blend imported and local rice.²⁷
- Raising awareness of the issues by: i) branding the advocacy messages; “Stop Smuggling Rice in Tanzania” and “Rice for Health, Rice for Wealth: Say NO to Smuggled Rice”, and ii) generating interest among stakeholders and the media through workshops and presentations at numerous conferences and events.



SERA project approach to lifting export bans

While the RCT's approach was to highlight how policies and weak enforcement were threatening businesses and livelihoods, SERA project's approach to addressing export bans was to present the GoT with alternatives and offer to build capacities to implement them. Soon after the project's inception in 2011, it undertook the following activities:

- Led a research program into the effects and possible alternatives to export bans, which it submitted in June 2012 in the form of three policy papers and reports
- Outlined a blueprint for a rules-based system for setting import policy and making periodic decisions in order to systematize the currently ad hoc and opaque procedures; the blueprint included a market intelligence unit for collecting and analyzing data and offering to provide technical support

Measured Impact of This Strategy On Policy Reform And Private Sector Investment

The efforts of the RCT and SERA project both achieved positive results. The SERA project appears to have contributed significantly to the lifting of export bans in October 2012, and they were not reintroduced, informally, until four years later, which, given the pattern of the past ten years, is a remarkable achievement. Also attributable to the efforts of SERA, the Ministry of Agriculture formally established in August 2016 a new ministerial Department which will house the Market Intelligence

²⁶ RCT, “Tanzania’s Rice Industry is Under Threat”

²⁷ RCT, May 2015, “Tanzania Rapid Rice Sector Market Assessment Report” funded by SERA project

Unit thereby institutionalizing a critical need for increasing grain market stability via increased evidence-based policy decision-making.

The RCT succeeded in getting the GoT to re-impose EAC-compliant import duties it eliminated for select importers (see policy constraints above) that were responsible for flooding the local market with cheaper Asian rice and, because of illicit exports to neighboring countries, an imposition of tariffs on Tanzanian rice by EAC members. In addition, the Tanzanian Revenue Authority (TRA) became more effective in controlling smuggling and illicit transshipments. By 2015, investigators for the RCT found only negligible traces of Asian rice in the Dar es Salaam market. In 2016, under new President Magafuli's aggressive anti-smuggling tactics, anecdotal information provided by domestic rice traders indicates that volumes of illegally smuggled rice are declining further still.

Among the RCT's other achievements, it joined a group of other private sector and industry associations that successfully lobbied for the removal of value added tax (VAT) on inputs and production implements. It also continues to lobby the GoT to meet with its Rwandan counterparts to eliminate tariffs on Tanzanian rice, playing a facilitative role bringing the two sides to the table.

While these achievements are important contributions to improving the enabling environment for private sector investment, they do not appear sufficient. To date, no significant capital investment has been recorded by NAFAKA or known to other actors in the rice sector. The opinion of businesses and representatives of financial institutions is that two significant barriers remain: i) the cost of capital is still prohibitively high, with interest rates somewhere between 18% and 22% and ii) too many GoT policies and procedures remain opaque, selectively applied and uncoordinated, which does not improve the investment climate.

In particular, business representatives pointed to the following:

- An introduction of a variant on export bans in 2016, suspended export permits, soon after re-imposing rice import restrictions, which is generally seen to favor the interests of select, large-sized players whose government connections enable them to obtain export licenses.
- Application of import duties by the TRA despite policy exemptions or government contracts. For instance, the owner of Kilombero Plantation Limited is struggling to make the case that its investment contract with the GoT makes it exempt from certain import duties, which the TRA refuses to acknowledge.
- Cess taxes applied by individual districts on agricultural production vary enormously and affect shipments transiting districts, which elevates rice prices and limits options for linking supply and demand,

There does, however, appear to be a promising trend in short-term investment in the rice sector. NAFAKA's own data collection has registered a significant uptick in the number of short-term loans between 2013 and 2016 among rice farmers and other actors in the value chain.²⁸ In addition, the manager of agricultural lending at a local financial institution²⁹ claims that many banks are more willing to lend to rice farmers and traders. He noted that they have a more favorable impression of the rice value chain due to greater degrees of cooperation between smallholder suppliers and processors and trader. He pointed to two well-known rice processors and exporters by name (Raphael and Mtenda Groups in Mbeya District) and thought these were positively influencing the supply chain management practices of at least seven others. Their favorable shifts are seen as lowering lending risks to smallholders by increasing farmers access to reliable markets and to quality agro-inputs, which are typically part of farmers' arrangements with traders.

²⁸ The number of annual loans have gone from 321 to 2557 between 2014 and 2016, but it is unclear if this is a statistically relevant comparison, nor is it clear exactly to whom or for what purpose the short-term loans were made.

²⁹ Robert Pasko, previously a manager at NMB, now at the Tanzanian Agricultural Development Bank and previously a board member of the RCT.

Overall, despite the pervasive uncertainties still fostered by the GoT policies and enforcement practices, actors in the rice sector expressed optimism in having its own representative organization, capable of addressing present and future issues. One concern expressed by many informants is the viability of the RCT to continue to advocate on behalf of businesses in the sector.

Lessons Learned

The most important insight from this case is that the disincentives for private sector investment appear linked, not to any one specific policy or enforcement mechanism but, to the overall environment of how policies are made and applied. In this context, although individual advocacy efforts may have been effective, as were the RCT's and SERA's efforts to roll back particular policy decisions, the private sector still perceived a larger pattern of ill-informed policy making and weak and ad hoc enforcement practices that formed the basis of their decisions not to invest.

The NAFKA project seemingly understood this dynamic when it chose to foster the emergence of a private sector-led entity to be a counter-vailing force against policy making and enforcement practices that hurt the rice sector. Also, decisions in the early formative months of the RCT seem to have equipped it to play a long-term balancing role. For example, initial RCT members decided to broaden its membership to include a range of stakeholders, including smallholder farmers, financial institutions, and agro-input providers. This inclusive approach had a couple salutary effects:

- It provided a wide, protective umbrella of diverse actors to shield them from possible retaliation of large businesses or government officials whose interests were threatened by RCT actions
- It enhanced the credibility the RCT to have agreement among leaders from diverse sectors
- It created opportunities to leverage its influence through cooperation with other associations, as when it succeeded in repealing the VAT for inputs and implements

Also, as mentioned above, the RCT's decision to advocate for and engage with the GoT earned it a position of valued partner in the policy making process. It is doubtful that an activist approach of strikes and other adversarial tactics would have achieved similar results.

Despite these promising attributes, a couple questions remain about how well the RCT can drive progress toward ever more well-informed and transparent policy making and enforcement practices. For one, how sustainable is the RCT in its current role? For two, can the RCT drive progress—fill the advocacy and watchdog functions—alone?

SUSTAINABILITY

As the RCT navigates its pathway to long-term viability, it senses and, in some cases, responds to multiple unmet needs including, representation for large, medium and small-scale businesses and farmers; data collection and analysis; consultation and advisory services; market intelligence; trade facilitation; etc. This is a challenging situation as these unmet needs are often quite acute as there are few other credible, permanent providers of these services. These needs also have the potential to drive the interest and attention of RCT leadership and risk becoming distractions if there is not consensus around the organization's mission and business model.

DRIVING PROGRESS

From the experiences of RCT and SERA, there are several tactics that proved effective, which gives some scope to the question about what is needed to drive GoT policy making and enforcement progress from outside the government. These successful tactical areas included:

- Representation of key voting constituencies (the RCT's Executive Director claimed that submitting 11,000 signatures of smallholder farmers in support of GoT action to stem smuggling was extremely effective, largely because of the political consequences of alienating such a large group of voters.)

- Representation of the interests of small to large-sized businesses in the rice value chain and supporting markets (RCT)
- Data collection and analysis and advisory services regarding, for example, agricultural production estimates, warehouse stocks and flows, and rice consumption patterns (RCT and SERA)
- Analysis of policy outcomes and exploration of alternatives (SERA)
- Awareness raising through media campaigns (RCT)

According to the Chief of Party of the SERA project, the Tanzanian institutions that would normally provide these services are either weak or not yet specialized in areas relating to agriculture or the rice value chain. These institutions include universities, think tanks, media outlets and journalists, research institutes and private sector associations. It seems unlikely that the RCT can fulfill all these functions alone and that the process of improving policy making and enforcement practices would not be very resilient if such functions resided in a single entity.

IMPLICATIONS FOR FACILITATING AND MEASURING PRIVATE SECTOR INVESTMENTS

If the overarching insight above is accurate, that private sector investment in this context is primarily constrained by how policies get made and enforced, then the implications for facilitating investment seem two-fold:

1. Implementers should not expect changes in any one particular policy or enforcement practice to trigger an investment response by the private sector. Instead, successive changes and improvements by the government should affect confidence levels which, if the direction of change remains positive and all other things remain equal, should increase investment levels.
2. If implementers limit interventions to addressing non-policy constraints like the lack of technical capacity or of access to markets or finance or agro-inputs, then implementers will likely struggle to transform the rice value chain to any great degree given the general unwillingness of many businesses to make capital investments in new operations or innovations.

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