



THE COMPREHENSIVE AFRICA AGRICULTURE DEVELOPMENT PROGRAM

PILLAR II  
AREA A

Framework for the Improvement of Rural Infrastructure and Trade-Related Capacities for Market Access (FIMA)

STRATEGIC AREA A

## Raising Competitiveness and Seizing Opportunities in Domestic, Regional, and International Markets

Trade in general, and agricultural trade in particular, play a crucial role in stimulating economic growth and reducing poverty and food and nutrition insecurity. Research results from a large sample of countries over several decades show that a 1 percent increase in the growth rate of agricultural exports increases the overall rate of economic growth by 0.04 to 1.83 percent (Figure 1). Furthermore, an incremental income increase of US\$1 from tradable goods was shown to generate additional income of between US\$1.50 and US\$2.50 in rural areas of selected African countries (Figure 2). Conversely, a 1 percent decline in the export price of Benin's main export crop, cotton, was shown to lead to a 0.5 percent decline in incomes in the growing zones and a nearly 2 percent increase in the overall number of households falling below the poverty line.

The loss of market share in regional and international export markets thus imposes substantial costs on African economies in terms of missed growth. African countries cannot meet the growth and poverty-reduction objectives under the Comprehensive Africa Agriculture Development Program (CAADP) (see Box 1) unless they improve their trade performance and reverse their decline in market shares. They must adopt strategies targeting not only international, but also domestic and regional, markets.

### Challenges and Emerging Trends

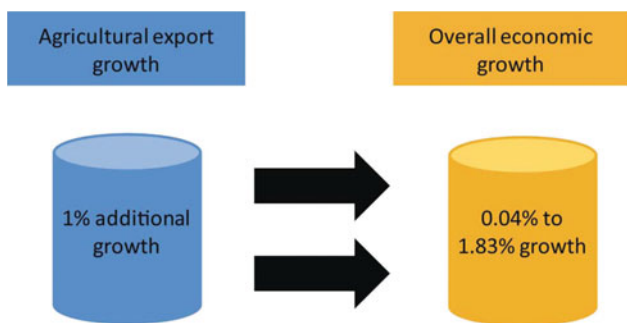
CAADP's agricultural trade agenda will need to address longstanding and emerging challenges in order to allow African countries to successfully compete in domestic, regional, and international markets. Among the most important of these challenges are the following:

- **Production challenges.** Changing market trends and conditions under globalization pose challenges to

production systems and productivity. The unit costs of supplying national, regional, and foreign markets and facing competition in these markets can be high. And it can be difficult to establish and operate businesses in other segments of the value chain. In addition, there is a need for greater agroindustrial capacity to adjust the supply of agricultural commodities to changing consumer tastes and preferences. Finally, farmers, agribusinesses, and processors need better access to finance.

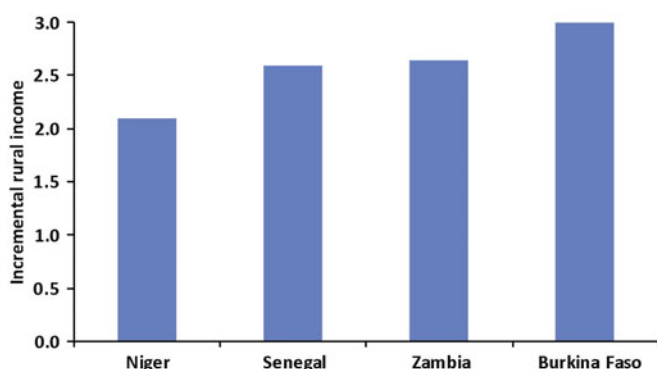
- **Inadequate quality standards and market and trade knowledge systems.** High quality norms and standards are crucial not just for reaching international markets, but also for reaching expanding domestic urban markets. Through concerted effort, it is possible to build national quality management systems. Globalization has raised the complexity of obtaining and managing market intelligence, but there are sufficient technological avenues to improve knowledge on conditions, trends, and outlooks in local, regional, and international markets.
- **Barriers to trade.** African countries need to remove their own policy and administrative barriers to trade. In addition, a number of Africa's trading partners place tariffs on African exporters and subsidize exports to Africa (Figures 1 and 2), while trade preferences granted to African countries deliver less value than expected. These global trade regimes need to be reformed. African countries also need improved trading infrastructure, which is a major determinant of the competitiveness of local goods in all markets from domestic and regional to international.

**Figure 1—Impact of agricultural export growth on growth in the rest of the economy**



Source: O. Badiane and M. Rosegrant, "Past performance and future prospects for agricultural development and food security in Africa," paper presented at the Parliamentary Conference on NEPAD (New Partnership for Africa's Development), May 15–18, 2006, Capetown, South Africa.

**Figure 2—Incremental rural income from US\$1 additional revenue from agricultural tradables**



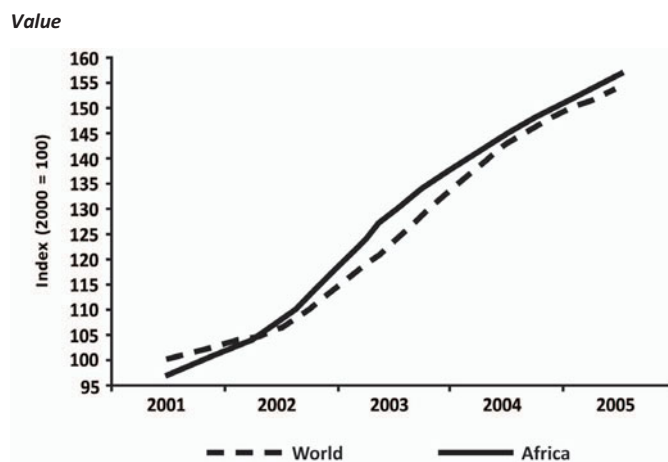
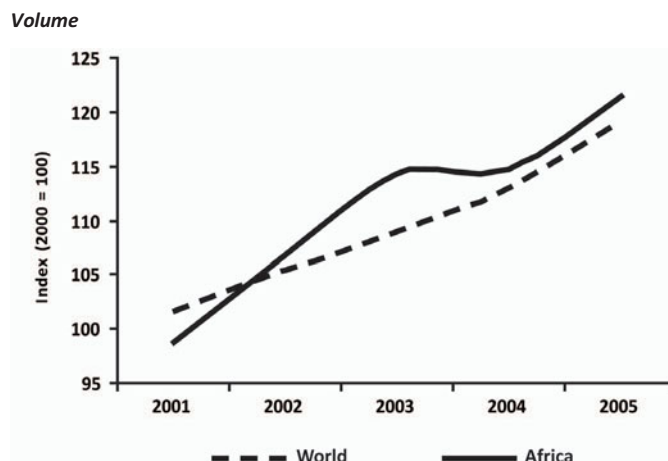
Source: O. Badiane and D. Spencer, Agriculture and economic recovery in African countries, in G. H. Peters and D. D. Hedley, eds., *Agricultural competitiveness: Market forces and policy choice* (Brookfield, VT: Dartmouth, 1995).

### Responses and Opportunities for Action

The most important opportunities to be targeted are discussed here. The core elements of a program to exploit these opportunities are summarized in Box 2.

- Opportunities in traditional export markets.** African countries can successfully compete in international agricultural markets. Over the past five years, the rates of growth in the volume and value of Africa's agricultural exports have exceeded the world average (Figure 3). Irrespective of the outcome of the Doha Round, the target of the CAADP agenda in this area should be to enable RECs and their member countries to (1) identify the factors behind the recent success in order to sustain and expand it; (2) exploit demand in the emerging economies of Asia and Latin America for food, raw materials, and processed goods; and (3) develop strategies to reap potential gains related to higher world market prices and the emerging biofuels sector. The agenda should also seek to strengthen the negotiation capacities of African countries to push for a reduction in global protectionism.

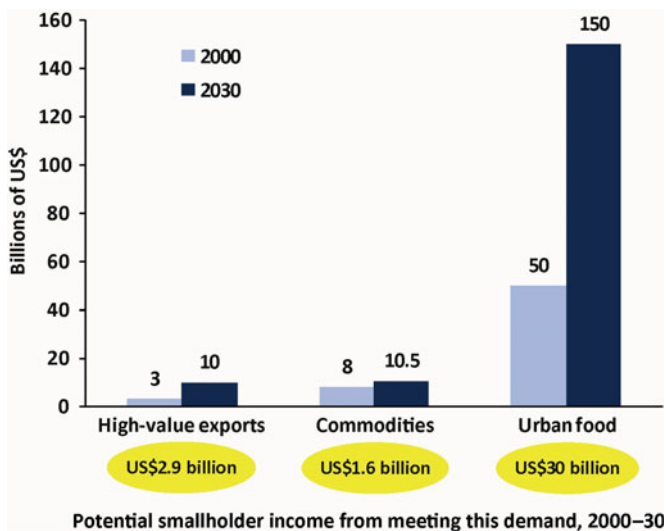
**Figure 3—Volume and value of agricultural exports by African countries compared with world average, 2001–05**



Source: O. Badiane, "Agricultural growth, poverty reduction, and food security in Africa: Progress in advancing the implementation of the Comprehensive Africa Agriculture Development Program," report prepared for the NEPAD Secretariat for the meeting of the African Partnership Forum, Algiers, December 2007. Data from World Trade Organization, *International trade statistics 2007*, and United Nations Conference on Trade and Development (UNCTAD), *Trade and development report 2007*.

- Opportunities in domestic and regional markets.** Demand in Africa's urban and regional markets is expected to grow from its current US\$50 billion to US\$150 billion over the next 25 years (Figure 4). Furthermore, regional trade and integration of cross-border markets can significantly help stabilize supplies in local food markets. The CAADP agenda will therefore involve working with RECs and their member countries to (1) eliminate barriers and disincentives to trade in local and cross-border markets; (2) scale up existing efforts to modernize regional trading systems and facilitate cross-border trade; and (3) treat regional trade and market development as a key criterion in infrastructure development strategies.
- Opportunities in emerging export markets.** Most of the growth in foreign demand for Africa's agricultural exports will take place in the emerging economies of Asia and Latin America, many of which apply high tariffs to African exports.

Figure 4—Projected increase in intra-African demand



Source: NEPAD Secretariat, “Agribusiness, supply chain, and quality control initiative,” CAADP implementation concept note (Midrand, South Africa, 2005).

Furthermore, changes in production, labor markets, and demand conditions will increase costs and partnerships between Africa’s agribusiness sector and agribusiness operators in these countries; (2) reflect market and production trends in these countries in national agricultural development strategies; and (3) work toward establishing trade agreements with China, India, and other leading emerging economies.

- **Financing and partnership models for value-chain enhancement.** The agenda under Pillar II should (1) identify successful models of partnerships and alliances currently operating across African countries, scale them up, and promote their transfer to more sectors and countries; (2) help individual countries develop partnership strategies to engage with the private sector; and (3) help smallholder farmers transform their organizations into credible commercial entities.

### Strengths to Build Upon

African countries have a number of strengths upon which the CAADP agenda can build.

- **Production and consumption potential.** Agricultural growth is resuming and accelerating in a number of countries, so a key goal of the CAADP agenda is to sustain and accelerate output growth in order to (1) close the productivity gap with the rest of world and (2) capture a greater share of the rising demand for food and other agricultural commodities.
- **Regional markets and potential for cross-border trade.** Several promising efforts to facilitate domestic and regional trade in agricultural commodities are under way at the regional and

country levels. To build on these strengths and boost domestic and cross-border trade, the CAADP agenda will include (1) the modernization and harmonization of standards, norms, and grades across national markets and (2) the promotion of modern trading systems, including the development of regional and national commodity exchanges.

- **Proximity to global markets.** African countries are well positioned to become larger players in international agricultural markets thanks to their proximity not only to the large European market, but also to Middle Eastern and Asian markets. Long-term trade strategies of African countries should reflect growth and consumption dynamics in these export markets.
- **Private sector role and capacity.** The CAADP agenda can build on the prevalence of smallholder farmers and small- and medium-scale enterprises by facilitating (1) strategic public-private partnerships to meet the institutional, infrastructural, and technological challenges associated with the sector’s fragmentation and (2) business-to-business alliances among entrepreneurs within and outside Africa.
- **Policy dialogue and partnership.** Open and inclusive dialogue, the creation of knowledge systems and capacities, and strengthened policy and strategy planning and implementation, can greatly improve growth, poverty, and food and nutrition security outcomes. CAADP-wide peer review and dialogue processes can be established at the regional and national levels and supported by Regional Strategic Analysis and Knowledge Support Systems (ReSAKSS), which are already operational in several African regions.
- **New and emerging value chains.** New value chains based on local food staples and traditional food recipes hold great promise for growth and poverty reduction, especially if they integrate smallholder farmers. The CAADP agenda in this area will focus on (1) scaling up the successful cases be found across African countries and (2) developing chains to target rapidly growing urban markets in Africa and in middle-income countries outside Africa.

### Proposed Early Actions for Pillar II Area A

The proposed early actions under each strategic area serve as entry points to scaling up the Pillar II agenda at the country and regional levels. They target key areas and activities that respond to needs that are broadly shared across countries and regions, hence requiring collective action and lending themselves to economies of scale. In several cases, they start with pilot programs that can be scaled up as implementation proceeds.

- **Agricultural trade facilitation.** The objective is to create an institutional, regulatory, and policy framework that will boost regional trade and cross-border investment. Indicative activities include building the capacities of the RECs to develop and operate agricultural and trade policy surveillance systems to monitor and remove barriers to cross-border commodity movement, to collect and disseminate information on regional trade flows, and to study trends in regional commodity markets. Other indicative activities include creating trading platforms to better link international supply and demand and reducing the cost of transactions in regional staples markets by building on East African efforts to develop a regional commodity exchange and replicating these efforts in West Africa.
- **International trade advocacy and negotiations skills.** The objective is to build international trade advocacy and negotiation skills to better articulate African interests in bilateral and multilateral trade negotiations in order to remove foreign policy distortions that limit market access and affect the competitiveness of African exports. Indicative activities include establishing full-time regional and national negotiating teams with mechanisms for effective coordination of positions and representations and providing short-term training in international trade policies and negotiation processes to equip these teams with the skills to effectively formulate and represent regional and country positions.
- **Quality management and certification services provision.** The objective is to develop systems for managing quality and certifying products to facilitate compliance with international trade agreements and overcome nontechnical barriers affecting the growth of African exports. Indicative activities include strengthening regional and country legal and institutional frameworks and harmonizing quality laws, standards, regulations, and policies; establishing integrated quality information management and reporting systems at the country and regional levels; and creating and strengthening certification agencies, facilitating the accreditation of regional and country certification services providers, and strengthening quality monitoring and enforcement capacities at the country level.

## BOX 1

### Pillar II of the Comprehensive Africa Agriculture Development Program

#### CAADP Agenda and Objectives

The Comprehensive Africa Agriculture Development Program (CAADP) is at the heart of efforts by African governments under the African Union (AU)/New Partnership for Africa's Development (NEPAD) initiative to accelerate growth and eliminate poverty and hunger among African countries. The main objective of CAADP is to help African countries reach a path of higher economic growth through agriculture-led development, which eliminates hunger, reduces poverty and food insecurity, and enables expansion of exports. As a program of the AU, it emanates from and is fully owned and led by African governments. Although continental in scope, it is an integral part of national efforts to promote agricultural growth and economic development. NEPAD's overall vision for agriculture seeks to maximize the contribution of Africa's largest economic sector to the achievement of self-reliant and productive economies. In essence, NEPAD aims for agriculture to deliver broad-based economic advancement, to which other economic sectors, such as manufacturing, petroleum, minerals, and tourism, may also contribute in significant ways, but not to the same extent as agriculture.

CAADP, as a common framework for agricultural development and growth for African countries, is based on the following key principles and targets:

- the principle of agriculture-led growth as a main strategy to achieve the Millennium Development Goal (MDG) of poverty reduction;
- the pursuit of 6 percent average annual agricultural growth at the national level;
- the allocation of 10 percent of national budgets to the agricultural sector;
- the exploitation of regional complementarities and cooperation to boost growth;
- the principles of policy efficiency, dialogue, review, and accountability;
- the principles of partnerships and alliances to include farmers, agribusiness, and civil society communities; and
- implementation principles that assign roles and responsibilities for program implementation to individual countries, coordination to designated regional economic communities (RECs), and facilitation to the NEPAD Secretariat.

CAADP identifies four major intervention areas, or pillars, to accelerate agricultural growth, reduce poverty, and achieve food and nutrition security:

- Pillar I: extending the area under sustainable land management and reliable water control systems;
- Pillar II: improving rural infrastructure and trade-related capacities for market access;
- Pillar III: increasing food supply, reducing hunger, and improving responses to food emergency crises; and
- Pillar IV: improving agriculture research and technology dissemination and adoption.

#### Pillar II Agenda and Objectives

The ultimate objective of Pillar II is to accelerate growth in the agricultural sector by raising the capacities of private entrepreneurs, including commercial and smallholder farmers, to meet the increasingly complex quality and logistics requirements of domestic, regional, and international markets, focusing on strategic value chains with the greatest potential to generate broad-based income growth and create wealth in the rural areas and the rest of the economy. The pillar agenda focuses on policy and regulatory actions, infrastructure development, capacity-building efforts, and partnerships and alliances that could facilitate smallholder-friendly development of agricultural value chains to stimulate poverty-reducing growth across African countries.

#### Key Pillar Strategic Areas

Actual implementation of the agenda under Pillar II is to be carried out through the following main clusters of activities, or strategic areas, guided by the vision described:

- *Area A*: raising competitiveness and seizing opportunities in domestic, regional, and international markets;
- *Area B*: investment in commercial and trade infrastructure to lower the cost of supplying domestic, regional, and international markets;
- *Area C*: value-chain development and access to financial services; and
- *Area D*: strengthening the commercial and technical capacities of farmer organizations and trade associations.

## BOX 2

### STRATEGIC AREA A — Raising competitiveness and seizing opportunities in domestic, regional, and international markets: Core program components

- 1. Raising and sustaining performance in traditional and foreign export markets:**
  - a. identify the factors behind the recent growth in African agricultural exports in order to transfer the success to a larger number of countries and thereby sustain and expand the strong trade performance of the past five years;
  - b. exploit the fast-growing demand in the emerging economies of Asia and Latin America, in particular:
    - i. seek stronger partnerships between the local agribusiness sector and agribusiness operators in the above regions;
    - ii. reflect long-term market and production trends in these countries in national agricultural development strategies;
    - iii. work toward establishing agricultural trade agreements with India, China, and other leading emerging economies;
  - c. develop strategies to compete in the emerging biofuels sector, focusing on oilseeds and traditional indigenous plants; and
  - d. strengthen regional and national negotiation capacities, preferably organized around RECs, in order to accelerate the reform of protectionist global policies and safeguard African interests in international trade agreements.
- 2. Raising competitiveness and expanding trade in domestic and regional markets:**
  - a. eliminate regulatory and administrative barriers and disincentives impeding or raising the unit cost of moving goods to local and cross-border markets;
  - b. develop quality management and certification services systems and harmonize standards, norms, and grades across national markets;
  - c. modernize regional trading systems, including the development of regional and national commodity exchanges;
  - d. establish within RECs trade surveillance and knowledge systems to monitor policies and barriers to trade and provide information on demand dynamics and long-term trends in regional markets; and
  - e. invest in transport infrastructure corridors to link high-potential production zones and major market areas within and across regions.
- 3. Building partnerships and alliances for value chain enhancement:**
  - a. identify successful models of public-private partnerships (PPPs) and business-to-business (B2B) alliances to raise value chain competitiveness, scale them up, and promote their transfer to more sectors and countries; and
  - b. establish targeted PPP and B2B alliances to develop the capacity of smallholder farmers and their organizations to act as credible commercial partners to banks, processors, input dealers, and other operators along the value chain.
- 4. Integrating smallholder farmers and medium-scale enterprises:**
  - a. develop required strategic public-private partnerships to meet the institutional, infrastructural, and technological challenges associated with the sector's fragmentation; and
  - b. foster B2B alliances, not just among African entrepreneurs, but also between African and outside operators to create scale and promote integration into the traditional and emerging value chains.
- 5. Improving sector governance and the policy environment of the trading sector**
  - a. deepen and refine positive sector policy reforms and continue to improve management of exchange rate, trade, and fiscal policy regimes; and
  - b. carry out necessary regulatory and administrative reforms to enhance the operations of input dealers, output traders, and financial and advisory services providers.

Technical Lead Institution CAADP for Pillar II  
Conference of Ministers of Agriculture of West and Central Africa  
CMA/WCA

with technical assistance from the International Food Policy Research Institute

