CAADP

THE COMPREHENSIVE AFRICA AGRICULTURE DEVELOPMENT PROGRAM

PILLAR II

SUMMARY

FRAMEWORK FOR THE IMPROVEMENT OF RURAL INFRASTRUCTURE AND TRADE-RELATED CAPACITIES FOR MARKET ACCESS (FIMA)

SUMMARY

THE CAADP AGENDA AND ITS 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), a program of the African Union to accelerate growth and eliminate poverty and hunger. As such, CAADP emanates from and is fully owned and led by African governments. Although continental in scope, it is integral to national efforts to promote agricultural growth and economic development.

As a common framework for agricultural development and growth for African countries, CAADP is based on the following:

- the principle of agriculture-led growth as a main strategy to achieve the Millennium Development Goal (MDG) of poverty reduction;
- the pursuit of a 6 percent average annual sector growth rate 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, shared by all NEPAD programs;
- the principles of partnerships and alliances to include farmers, agribusiness, and civil-society communities; and
- the implementation principles, which assign the roles and responsibilities of program implementation to individual countries, coordination to designated regional economic communities (RECs), and facilitation to the NEPAD Secretariat.

CAADP defines four major intervention areas, or pillars, to accelerate agricultural growth, reduce poverty, and achieve food and nutrition security in alignment with the above principles and targets:

- 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
- Pillar IV. Improving agriculture research and technology dissemination and adoption.

THE AGENDA AND OBJECTIVES OF PILLAR II

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 cost, quality, and logistical 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 rural areas and the rest of the economy. The Pillar II agenda focuses on policy and regulatory actions, infrastructure development, capacity-building efforts, and partnerships and alliances. The Pillar's objectives and activities are summarized in Box 1.

THE CONTRIBUTION OF AGRIBUSINESS DEVELOPMENT AND TRADE TO CAADP GROWTH AND POVERTY-REDUCTION TARGETS

Agriculture as an engine of growth. Empirical evidence in Africa and elsewhere shows that agricultural growth (a) contributes more than any other sector to overall income growth in rural areas where the bulk of the poor and vulnerable live and work; (b) stimulates growth in other sectors of the economy by expanding demand for the goods and services that are produced outside the sector; and (c) reduces overall poverty, hunger, and malnutrition levels by raising the supply of food while improving access to it through higher incomes in rural and other sectors of the economy. Research findings by the International Food Policy Research Institute (IFPRI) indicate that a sustained expansion of revenues from agricultural products traded in local, regional, and international markets would result in an increase in overall incomes in the local economy that is at least twice as high as the initial increase in incomes in the agricultural sector itself.

The role of trade in local and regional markets. According to the findings of a study commissioned by the NEPAD Secretariat in 2005, foreign demand for commodities and high-value exports is projected to grow from US$8 billion and US$3 billion in 2000, respectively, to roughly US$10 billion in each category in 2030. In contrast, demand in local and regional urban food markets across Africa is expected to jump from US$50 billion to US$150 billion during the same period. By 2030, farmers could derive potential income from these various markets totaling US$4.5 billion from foreign export markets, and as much as US$30 billion from domestic and cross-border markets.

The contribution of Pillar II to the CAADP growth and poverty-reduction agenda. The agricultural growth and trade multipliers described above indicate that the implementation of Pillar II should seek to achieve at least a 4 percent annual growth rate for agricultural output and exports in order to induce a growth rate of 6 percent in the rest of the economy. Country-level analyses carried out as part of the implementation of the CAADP agenda indicate that growth of the same magnitude may also be required outside agriculture to ensure that the poverty and nutrition MDGs are met. The same multipliers also indicate that achieving the 6 percent agricultural growth rate would raise growth in the nonagricultural sector to more than 7 percent and will ultimately result in an economywide growth rate of about 6 percent. The contribution of increased sales of agricultural goods in local and regional markets to overall incomes in rural areas suggests that a successful Pillar II agenda—which would allow African smallholders to capture the estimated US$30 billion in potential additional income in regional markets—would raise rural incomes by up to another US$60 billion, thereby making a significant contribution to poverty reduction and food and nutrition security.

THE FRAMEWORK FOR THE IMPROVEMENT OF RURAL INFRASTRUCTURE AND TRADE-RELATED CAPACITIES FOR MARKET ACCESS (FIMA)

FIMA specifies key long-term challenges, strategy options, and partnerships and alliances to accelerate agribusiness development in Africa. Its primary goal is to guide the facilitation and coordination roles of the NEPAD Secretariat, leading RECs, and country governments, as well as actions by all other major stakeholders, particularly the private sector, farmer organizations, civil-society organizations, and the development community. The diagram below, together with the description in Box 2, summarizes the strategic approach underlying the Pillar II agenda.

KEY STRATEGIC AREAS OF PILLAR II

Actual implementation of the agenda under Pillar II is to be carried out through the five strategic areas described below. The framework specifies core program components for each of the strategic areas to guide planning and implementation activities by regional economic communities and their member countries. Not all countries and regions have to implement all of the individual program components. Rather, the set of activities are to be treated as guideposts for defining national policies and investment programs, as well as for establishing the necessary partnerships and alliances to advance the Pillar agenda. It is to be expected that some elements may be more relevant than others, depending on the challenges, options, and pre-existing strengths in individual countries and regions.

Strategic Area A: Raising competitiveness and seizing opportunities in domestic, regional, and international markets—Core Program Components

Successful implementation of the Pillar II agenda calls for the following five sets of activities in order to effectively raise the competitiveness of the domestic sectors in key agricultural markets:

a. *Raising and sustaining performance in traditional and foreign export markets:*
   (i) 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;
   (ii) exploit the fast-growing demand in the emerging economies of Asia and Latin America, in particular by:
   - seeking stronger partnerships between the local agribusiness sector and agribusiness operators in the above regions;
   - reflecting the long-term market and production trends in these countries in national agricultural development strategies;
   - working toward establishing agricultural trade agreements with India, China, and other leading emerging economies.

(iii) develop strategies to compete in the emerging biofuels sector, focusing on the oilseeds and traditional indigenous plant sectors;
(iv) 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.

b. *Raising competitiveness and expanding trade in domestic and regional markets:*
   (i) eliminate regulatory and administrative barriers and disincentives impeding or raising the unit cost of the movement of goods across local and cross-border markets;
   (ii) develop quality management and certification services systems and harmonize standards, norms, and grades across national markets;
   (iii) modernize regional trading systems, including the development of regional and national commodity exchanges;
   (iv) establish trade surveillance and knowledge systems within RECs to monitor policies and barriers to trade and provide information on demand dynamics and long term trends in regional markets;
   (v) invest in transport infrastructure corridors to link high potential production zones and major market areas within and across regions.

c. *Promoting partnerships and alliances for value-chain enhancement:*
   (i) identify successful models of public-private partnerships (PPP) and business-to-business (B2B) alliances to raise value-chain competitiveness, scale them up, and promote their transfer to more sectors and countries;
   (ii) 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.

d. *Integrating smallholder farmers and medium-scale enterprises:*
   (i) develop required strategic public–private partnerships to meet the institutional, infrastructural, and technological challenges associated with the sector's fragmentation
   (ii) foster business-to-business alliances, not just among African entrepreneurs, but also between the entrepreneurs and outside operators to create scale and promote integration into the traditional and emerging value chains.

e. *Improving sector governance and the policy environment of the trading sector*
   (i) deepen and refine the positive sector policy reforms and continue to improve the management of exchange rate, trade, and fiscal policy regimes.
   (ii) carry out necessary regulatory and administrative reforms to enhance the operations of input dealers, output traders, and financial and advisory services providers

Strategic Area B: Investing in commercial and trade infrastructure to lower the cost of supplying national, regional, and international markets—Core Program Components

Four sets of activities are identified for this strategic area in order to contribute to the overall Pillar objective and advance the CAADP agenda at the regional and country levels. These are:

a. *Value-chain infrastructure development*
   (i) upgrade transport infrastructure, roads, rails, ports, airports, and expand rural roads;
   (ii) invest in processing and market-related infrastructure for assembly, storage, grading, and packaging, in order to accelerate the integration of smallholder farmers into value chains;
   (iii) invest in the innovative use of information and communications technologies, including content and access, to improve market operations, cut transactions costs, and integrate smallholder farmers into local, regional, and export value chains;
   (iv) expand other critical infrastructure, including irrigation, potable water, and rural electricity and telecommunications;

b. *Public–Private Partnership (PPP) for infrastructure development*
   (i) build PPP platforms to encourage the private sector to invest in transportation and trading infrastructure services and allow governments to play their roles more efficiently;
   (ii) establish the required regulatory mechanism and related legal framework to level the playing field between new entrant companies and incumbent operators;
   (iii) create partnership opportunities for small-scale infrastructure investment in rural areas—such as post-harvest and other market-related infrastructure—to integrate smallholder farmers into local and export value chains.

c. *Exploitation of regional complementarities in infrastructure development*
   (i) build capacities to coordinate regional infrastructure projects and promote complementarity between national

infrastructure investment programs;

(ii) develop regional infrastructure corridors by scaling up investment in intra-regional roads, railways, air transport, commercial infrastructure, energy, and telecommunications in a way to link linking major consumption areas with high production potential zones;

d. Sector governance and policy

(i) clearly define the role of the state, the role of the private sector, and the role of public–private partnerships in policies, program design, implementation, and funding;

(ii) establish institutional tools to harmonize regional policies and regulations related to infrastructure, using the European Union's experience as a possible model;

(iii) improve the investment climate and business environment, including the creation of the necessary legal system to minimize corruption at all levels, among both local and external actors.

Strategic Area C: Developing Value-Chains and Financial Services—Core Program Components

As in the case of the other strategic areas, a set of activities has been identified in the framework document to guide regional and national efforts to promote the development of competitive value chains and related financial services. The most important activities include:

a. Levers for Agricultural Enterprise Growth and Value-Chain Development

(i) undertake targeted actions on country- and sector-specific determinants of agribusiness enterprises growth;

(ii) implement priority interventions that raise the value accruing to actors at each level of the chain, with a focus on:

- unit cost reduction
- volume expansion
- product value addition

b. Financial Services Sector Development for Value Chain Growth

(i) develop adapted credit information systems;

(ii) create and/or strengthen regulatory mechanisms for collateral enforcement;

(iii) provide training and other capacity building mechanisms to improve risk perception and thus reduce the barriers to as well as cost of borrowing;

(iv) mobilize non-bank financial institutions (insurance, pension funds, microcredit systems) to ease access to long-term investment funds and expand financial services in rural areas;

(v) raise the capacity of agribusiness enterprises to improve business reporting and provide satisfactory documentation in support of loan applications;

(vi) raise the capacity of banks to provide affordable, flexible, and innovative financial products that meet the varied needs of ARE.

c. Sector Policy and Governance

(i) promote a stable and well-balanced exchange rate, as well as monetary and fiscal policy regimes;

(ii) implement conducive bank regulations, business and trade taxation, regulation of business start up and closing; ensure the legal compliance of business operations and employment laws, and enforce contracts;

Strategic Area D: Strengthening the Commercial and Technical Capacities of Farmers' Organizations and Trade Associations - Core Program Components

a. The Role and Evolution of Farmer Organizations and Trade Associations (FO/TAs) in Promoting the Integration of Smallholders into Agricultural Value Chains

(i) promote the institutional maturation of leading local FO/TAs through the adoption of more effective governance and management practices, which is required for them to serve as vehicles for the integration of smallholders into the emerging and dynamic value chains;

(ii) encourage the operational diversification of leading local FO/TAs through the acquisition of the necessary technical, commercial, and financial resources so as to enable them to:

- efficiently and effectively fulfil all the major technology, market, and financial needs of their membership; and
- develop into business-oriented entities that can serve as credible business partners to other actors along the value chain.

b. Smallholder Farmer Integration Pathways

(i) encourage the development of FO/TAs into effective "chain actors," primarily as "product specialists," which is often the first step in integrating smallholders that are predominantly outside of the value chains;

(ii) intensify chain integration in the case of FO/TAs that maintain some level of contact with the remaining segments of value chain. Such intensification can take place along the following three axes:

- partnership with other chain members through horizontal integration with FO/TAs

specializing in production as “chain partners;”
- value addition through vertical integration, with FO/TAs evolving into “chain integrators;”
- expansion into other activities along the value chain, leading to FO/TAs becoming “chain owners.”

c. *Sector Policy and Regulatory Alignment*

(i) foster a conducive legal framework that allows for the registration and effective operation of farmer organizations as business entities; and

(ii) foster a regulatory environment that avoids disincentives in the pricing, marketing, input distribution, financing, and technology areas so as to not discourage the emergence of efficient, FO/TA-based agribusiness enterprises.

PROPOSED EARLY ACTIONS TO FACILITATE FIMA IMPLEMENTATION

The proposed early actions listed under each strategic area serve as entry points to scaling up the Pillar II agenda at the country and regional levels. They target key priority 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 taken up and scaled out as implementation proceeds. Detailed objectives and indicative activities are presented in the main framework document for each of the early actions.

Strategic Area A: Raising Competitiveness and Seizing Opportunities in Domestic, Regional, and International Markets

1. ***Facilitating agricultural trade*** to create the required institutional, regulatory, and policy frameworks to facilitate the emergence of regional economic spaces and boost the expansion of regional trade and cross-country investments.
2. ***Building capacity for international trade advocacy and negotiation*** 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.
3. ***Developing quality management and trade certification service systems*** to facilitate compliance with international trade agreements and overcome nontechnical barriers affecting the growth of African exports.

Strategic Area B: Investing in Commercial and Trade Infrastructure to Lower the Cost of Supplying Domestic, Regional, and International Markets

1. ***Promoting the Infrastructure for Growth Initiative (I4GI)*** to develop and implement a master plan to link current regional transport infrastructure corridor projects to potential agricultural growth poles

Strategic Area C: Value-Chain Development and Access to Financial Services

1. ***Encouraging agricultural investment and creating enterprise development platforms*** to promote the adoption of effective and efficient tools for PPPs and B2B alliances that can boost agricultural value-chain development.
2. ***Promoting agribusiness joint venture fairs*** to expand joint venture opportunities in the agribusiness sector by facilitating contacts between entrepreneurs and investors in the early stages of enterprise creation.
3. ***Promoting fertilizer and seed systems development*** to (a) speed up the emergence of broadly accessible, cost-effective, and competitive seed and fertilizer supplies and financing systems, and (b) significantly raise the use of both inputs by smallholder farmers.

Strategic Area D: Strengthening the Commercial and Technical Capacities of Farmer Organizations and Trade Associations

1. ***Designing and piloting effective models of value-chain integration for smallholder farmers*** in order to develop effective and scalable tools to support partnerships and alliances between governments, private-sector operators, and leading local FO/TAs that can broaden the access of smallholder farmers to commercial and technical services.
2. ***Designing and piloting innovative vocational training and workforce development systems*** for future scale-up to accelerate the modernization of farming systems and ensure the long-term technological competitiveness of Africa’s smallholder and agribusiness sectors in the global agricultural economy.

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 the 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:

- 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:

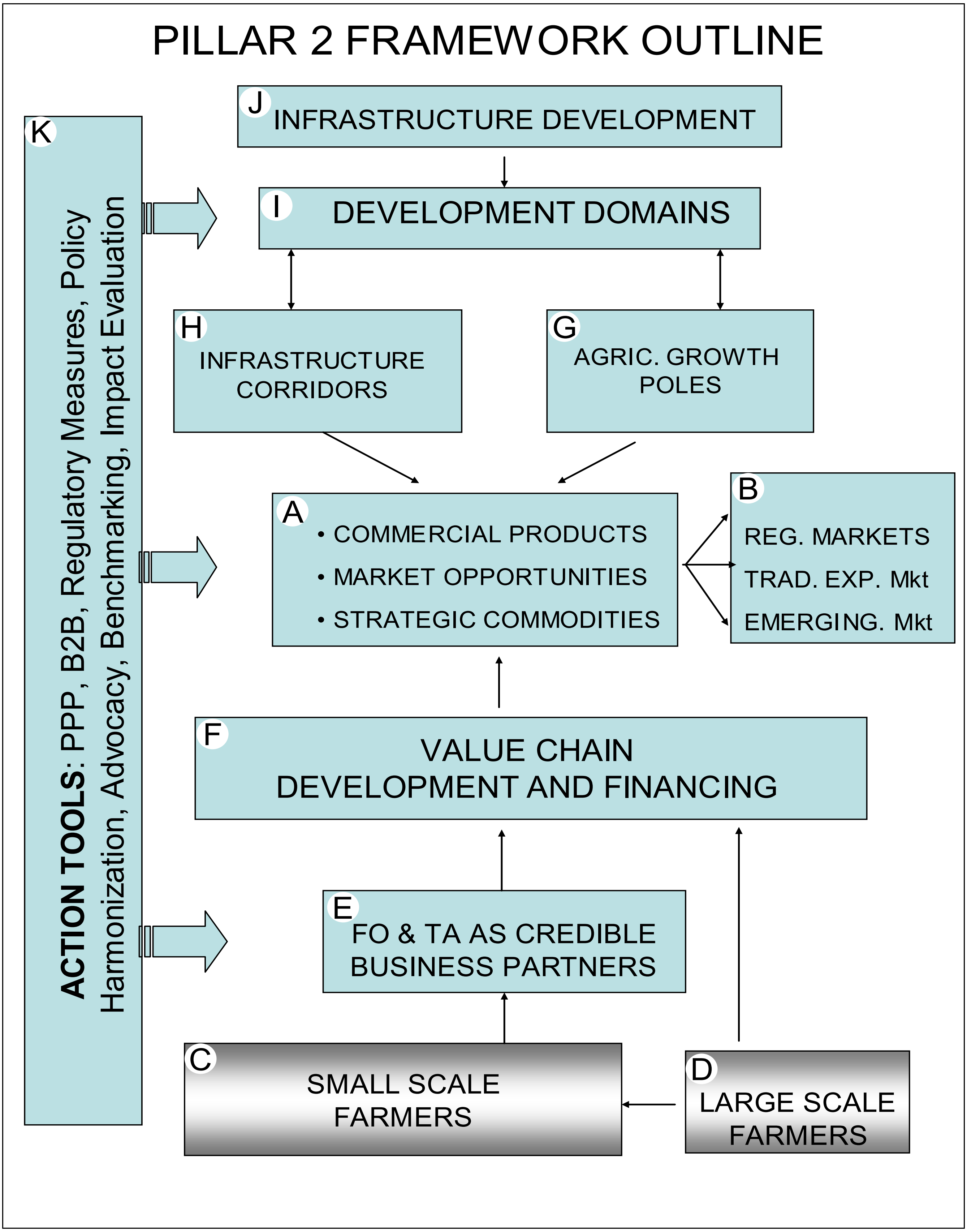
- Pillar I: extending the area under sustainable land management and reliable water control systems;
- Pillar II: improving rural infrastructure and trade-related capacities for market access;
- Pillar III: increasing food supply, reducing hunger, and improving responses to food emergency crises; and
- 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:* investing in commercial and trade infrastructure to lower the cost of supplying domestic, regional, and international markets;
- *Area C:* developing value-chain and financial services; and
- *Area D:* strengthening the commercial and technical capacities of farmer organizations and trade associations.

Conceptual Framework for Implementing Pillar 2



BOX 2

FIMA's Strategic Approach: An Overview

The objective is to target efforts to expand the supply base to respond to future demand opportunities and develop value chains to raise the competitiveness in domestic, regional, and foreign export markets. The following steps are to be followed in developing country strategies and investment programs at the national and regional levels:

Step 1: The starting point consists of (a) the identification of a portfolio of strategic commodities, ranging from basic staples to high-value products, that exhibit short- and long-term market opportunities and potential commercial products that would allow the acceleration of broad-based poverty-reducing growth and (b) careful deployment of country and regional resources around these commodities. (See Box A in the Conceptual Framework diagram on page 7)

Step 2: The second step is to review and align investment and trade policies so as to fully exploit demand trends in domestic/regional markets, traditional export markets, and emerging markets, in particular in Asia, associated with the above commodities. (See Box B)

Step 3: Countries and sector actors then need to identify the types of regulatory and institutional changes and partnerships and alliances that are required to build the technical and commercial capacities of farmer organizations and trade associations (FO/TAs) as a strategy to broadly expand the supply capacity of smallholders and other farmers to respond to the above demand. (See Boxes C, D & E)

Step 4: The government, agribusiness, financial sector, and farmer organizations identify the strategic investments and models of public-private partnerships (PPPs) and business-to-business (B2B) alliances needed to overcome the constraints to the development of smallholder-friendly value chains in the strategic commodity sectors, including the fertilizer and other modern inputs sector. (See Box F)

Step 5: Concomitantly to the national processes, country and regional stakeholders specify, under the leadership of RECs, the necessary efforts and roles to (a) harmonize country strategies to facilitate the emergence of cross-border agricultural growth poles and (b) link these poles to the main transport/communications corridors within and across regions in order to create regional development domains with more diversified growth patterns. (See Boxes G, H & I)

Step 6: Based on the above, RECs and member governments design rural infrastructure strategies to develop the required complementary infrastructure to link the above development domains with national consumption centers and exit points to foreign export markets. (See Box J)

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