CAADP

THE COMPREHENSIVE AFRICA AGRICULTURE DEVELOPMENT PROGRAM

PILLAR II

AREA B

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

STRATEGIC AREA B

Investment in Commercial and Trade Infrastructure to Lower the Cost of Supplying Domestic, Regional, and International Markets

The development community is increasingly in agreement that providing adequate hard infrastructure (like telecommunications, electrification, water, and rural roads) is an important step in alleviating poverty and providing more equitable opportunities for citizens in developing countries. In infrastructure development, Africa has lagged behind the Western Hemisphere, even trailing behind Latin America. This gap has normally been attributed to geography and the initial condition of Africa’s infrastructure.

The slow development of an efficient regional transportation infrastructure has impeded growth in regional and international trade and is a major barrier for landlocked countries. It has also created disincentives to domestic private sector and foreign direct investment in Africa. Although in some cases firms can make up for deficient infrastructure services by investing privately, such substitutions impose additional costs. Moreover, some types of infrastructure services—such as transport infrastructure—cannot be easily substituted.

Limited access to infrastructure in rural areas could encourage the emergence of powerful groups of actors who could control local agricultural markets and retard the integration of smallholder farmers into major value chains. Infrastructure should not be restricted to capital-intensive forms (like roads and ports), but should also include commercial and postharvest infrastructure such as markets and storage, grading, packaging, and processing infrastructure. Moreover, the development of the first category of infrastructure should seek to generate complementarities with the second category in order to reduce barriers to smallholder integration into input and credit markets and other segments of agricultural value chains. Infrastructure for information and communication technologies (ICTs), in particular, offers an opportunity to reduce asymmetries of information and to open new local, regional, and international markets, particularly for high-value products for which transaction costs are significant. Finally, a regional approach to infrastructure development can provide an opportunity to create the economies of scale necessary to lower the cost of meeting rapidly expanding infrastructure demand.

The goal behind the current strategic area is to overcome the policy, institutional, and infrastructural impediments to raising competitiveness in Africa’s agricultural sector and thereby realize the market access and growth objectives under Pillar II of the Comprehensive Africa Agriculture Development Program (CAADP). The Pillar’s objectives and activities are summarized in Box 1. Box 2 describes the core program components under the current strategic area.

Challenges and Emerging Trends

Key challenges and emerging trends related to infrastructure are the following:

- historically much stronger telecommunications and road linkages between Africa and other regions of the world than among African countries;
- low population density, which significantly raises the amount of resources needed to build, operate, and maintain infrastructure in rural areas;
- rapid urbanization, which is gradually shifting demand from dispersed rural areas to urban centers, raising the demand for infrastructure to link food domestic supplies to the growing consumption centers;
- strong need for postharvest infrastructure to help small farmers extend the shelf life of their crops, as well as add value to them;
- growing pressure to (1) upgrade trade infrastructure such as airports, ports, and roads; (2) develop infrastructure corridors, in particular road and rail network corridors; and (3) adopt regional policies to better coordinate country infrastructure priorities and promote effective interconnection of national road networks; and
- the increasing competition from emerging markets for global resources for infrastructure development.

Responses and Opportunities for Action

Developments in several areas create opportunities for many countries and regions.

- **Renewed interest in agriculture and infrastructure development**. The importance of infrastructure, especially roads, has been amply shown by the experience of Asian countries. The need to sharply increase public investments in rural infrastructure, roads, and communications in order to improve market access by African farmers is now widely recognized.
- **Public-private partnerships for infrastructure development**. The public sector must play a facilitating role in infrastructure development to open the possibility of private sector investment in road transportation services. Such investment in turn would increase the willingness of development partners to scale up investment in infrastructure development. Governments must also establish regulatory mechanisms and legal frameworks to level the playing field between new-entrant companies and incumbent operators. In addition, they need to create partnership opportunities for small-scale infrastructure investments in rural areas, such as postharvest and other market-related infrastructure, to integrate smallholder farmers into local, regional, and international value chains.
- **Regional coordination to raise returns to infrastructure investments**. Infrastructure in Africa requires an integrated regional approach. Improved roads and ports in Tanzania, for example, can help landlocked countries such as Malawi and Uganda trade more efficiently. Therefore, Malawi and Uganda have a direct stake in road and port improvements in Tanzania. Better coordination of infrastructure development plans between countries could result in higher returns to investments, stronger growth linkages, more regional and foreign direct investment, and more stable local food markets.

Strengths to Build Upon

A number of strengths could help Africa sustain rapid and long-term infrastructure development for value-chain growth.

- **Africa’s relative proximity to foreign markets and the existence of large transborder market areas**. African countries have greater access to foreign markets than to domestic and regional markets, where a significant potential remains largely underexploited. The low quality of trade-related infrastructure in Africa implies that policies and investments to raise the level and quality of infrastructure would yield high returns.

This is particularly true if such interventions are carried out in a coordinated manner to exploit regional complementarities and in a way that links infrastructure to areas with high production potential.

- **RECs' capacities to coordinate and manage regional infrastructure projects**. RECs are increasingly better positioned to facilitate collective action to boost the quantity and quality of investments in infrastructure development. Better coordination of infrastructure investments creates economies of scale, reduces average costs for participating countries, and, as a result, makes infrastructure projects more attractive for private and foreign investors.
- **Knowledge and information infrastructure for trade and market access**. Innovative use of telephones and access to the Internet could play a crucial role in reducing the asymmetries of information and transaction costs and thereby increasing the integration of farmers into regional, national, and international trade networks. By opening trading opportunities and supporting the functioning of markets, improved ICTs can increase the availability of food as well as monetary income. Under the Pillar II agenda, ICTs can be harnessed to improve, for example, the negotiating capacity of farmers; information on market standards and requirements, including sanitary and phytosanitary requirements; and diffusion of new production technologies.
- **Infrastructure investments in ICTs to boost capacity to deal with systemic climate, health, and other risks.** ICTs increase country capacities to deal with climate, health, and other risks affecting their agricultural production supply. They do so by helping to improve (1) the quality of public goods provision, such as health services; (2) the quality of human resources, primarily through better access to education; (3) the use or extension of existing social networks; and (4) the operation of existing or new institutional arrangements to empower poor people and communities.

Sector Governance and Policy

Given the apparent failure of purely public-sector-based services provision in the 1970s and the failure of market-based alternatives to take off in the 1980s and 1990s, it is necessary to search for institutional innovations that would yield greater success in African countries. Governments should focus on the following approaches:

- **A demand-driven infrastructure system.** An infrastructure system that is responsive to the needs of the agricultural sector and the demands of people living in rural and remote areas is a prerequisite for social and economic development in Africa. At present, the estimation of rural infrastructure investment is generally based on a needs assessment for each sector at the national level, with little or no assessment of demand and coordination at the local level where the services will ultimately be provided.
- **Market-led reforms.** Compared with the provision of electric power and roads, the development of telecommunications infrastructure in Africa has been relatively successful, thanks to technological progress, and particularly market-led reforms. Lessons from such reforms will be helpful in charting a future course of action for infrastructure development.
- **Existing institutional frameworks.** Governments can use existing frameworks to introduce innovative institutional designs to reduce the access gap in various infrastructure categories. Such interventions should allow for the simultaneous development of the legal, institutional, and regulatory framework needed to advance different strategies.
- **Public intervention.** In remote poor rural areas, public intervention is needed to close the gap in access to infrastructure. Where the government believes that services should be provided beyond what a

well-functioning market will offer, subsidies may be justified, but the government must improve the functioning of the market so that subsidies can provide maximum benefit when and where they are needed.

- **Public-private partnerships (PPPs).** Practices that have proven successful usually rely on market mechanisms and effective PPPs. PPPs require regulation and the related legal framework to set rules for interaction and minimize transaction costs among various players.

Proposed Early Action for Pillar II Area B: The Infrastructure for Growth Initiative (I4GI)

The proposed early actions under this as well as other strategic areas 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 and that hence require collective action and lend themselves to economies of scale. In several cases, they start with pilot programs that can be scaled up as implementation proceeds.

The objective of the I4GI early action is to develop and implement a master plan to link current regional transport infrastructure corridor projects to potential agricultural growth poles*. Indicative activities will include identifying the main agricultural growth poles in the Union du Maghreb Arab (UMA), the Common Market for Eastern and Southern Africa (COMESA), the Economic Community of West African States (ECOWAS), the Economic Community of Central African States (ECCAS), and the Southern African Development Community (SADC) regions. Other such actions will consist of systematically reviewing existing infrastructure corridor projects under elaboration, specifying necessary modifications to these projects as well as additional infrastructure needs to link them to agricultural growth poles within and across regions; elaborating strategies to improve coordination of infrastructure development programs at the regional level and across countries; and creating opportunities for partnerships to promote investment in regional infrastructure projects oriented toward agricultural growth.

* See Commission of the European Communities: "Interconnecting Africa: The EU-Africa Partnership on Infrastructure," Communication from the Commission to the Council and the European Parliament (Brussels, 2006).

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 B: Investment in commercial and trade infrastructure to lower the cost of supplying national, regional, and international markets: Core program components

1. **Value chain infrastructure development**
   a. Upgrading of transport infrastructure, roads, rails, ports, airports, and expansion of rural roads;
   b. Investment in processing and market-related infrastructure for assembly, storage, grading, and packaging to accelerate integration of smallholder farmers into value chains;
   c. Investment in innovative use of ICTs, including content and access, to improve market operations, cut transaction costs, and integrate smallholder farmers into local, regional, and export value chains; and
   d. Expansion of other critical infrastructure, including irrigation, potable water, and rural electricity and telecommunications.
2. **Public-private partnership (PPP) for infrastructure development**
   a. Build PPP platforms encourage the readiness of the private sector to invest in transportation and trading infrastructure services and allow governments to play their roles more efficiently;
   b. Establish the required regulatory mechanisms and related legal framework to level the playing field between new entrant companies and incumbent operators; and
   c. Create partnership opportunities for small-scale infrastructure investment in rural areas, such as postharvest and other market-related infrastructure to integrate smallholder farmers into local and export value chains.
3. **Exploitation of regional complementarities in infrastructure development**
   a. Build capacities to coordinate regional infrastructure projects and promote complementarity between national infrastructure investment programs; and
   b. Develop regional infrastructure corridors by scaling up investment in intraregional roads, railways, air transport, commercial infrastructure, energy, and telecommunications to link major consumption areas with high production potential zones.
4. **Sector governance and policy**
   a. Clearly define the roles of the state, the private sector, and public-private partnerships in policies, program design, implementation, and funding;
   b. Establish the institutional tools to harmonize regional policies and regulations related to infrastructure, which could, for instance, be modeled after the example of the European Union; and
   c. Improve the investment climate and business environment, including by creating a legal system that can minimize corruption at all levels, among both local and external actors.

Technical Lead Institution CAADP for Pillar II
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